Poverty Reduction in Honduras

A Background Paper

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Jonathan Sleeper, Team Leader, PPC/Evaluation Studies Division
Clarence Zuvekas, Management Systems International
John Thomas, Management Systems International
J. Michele Guttmann, Management Systems International

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Cover photo: Vocational training for school dropouts is an important component of USAID's poverty reduction strategy in Honduras. USAID

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Abbreviations and Acronyms

AID/W	USAID Washington (Headquarters)
AMHON	*Asociación de Municipios de Honduras* (Honduran Association of Municipalities)
ASHONPLAFA	*Asociación Hondureña de Planificación de la Familia* (Honduran Family Planning Association)
CABEI	Central American Bank of Economic Integration
CGR	Controller General of the Republic
CIPRODEH	*Centro de Investigación y Promoción de los Derechos Humanos* (Center for the Investigation and Promotion of Human Rights)
COHDEFOR	*Corporación Hondureña de Desarrollo Forestal* (Honduran Forestry Development Corporation)
COVELO	*Fundación José Mª Covelo* (José María Covelo Foundation)
DHS	Demographic and Health Surveys (USAID-supported)
EDUCATODOS	"Education-For-All" program
EPRP	Emerging Poverty Reduction Paradigm
EU	European Union
EXTENSA	*Proyecto de Extensión para la Seguridad Alimentaria* (Food Security Extension Project)
FHIS	*Fondo Hondureño de Inversión Social* (Honduran Social Investment Fund)
FIDE	*Fundación para la Inversión y Desarrollo de Exportaciones* (Foundation for Investment and Development of Exports)
FINSA	*Fundación Internacional para la Asistencia Comunitaria* (International Foundation for Community Assistance)
FONAPROVI	*Fondo Nacional para la Producción y la Vivienda* (National Fund for Production and Housing)
FOPRIDEH	*Federación de Organizaciones Privadas de Desarrollo de Honduras* (Honduran Federation of Private Development Organizations)
FUNDEMUN	F*undación para el Desarrollo Municipal* (Municipal Development Foundation)
GTZ	*Deutsche Gesellschaft für Technische Zusammenarbeit* (German international assistance agency)

HDI	Human Development Index (UNDP)
HIPC	Heavily indebted poor country
ICITAP	International Criminal Investigative Training Assistance Program (U.S. Department of Justice)
IDB	Inter-American Development Bank
IHSS	*Instituto Hondureño de Seguridad Social* (Honduran Social Security Institute)
IMF	International Monetary Fund
IR	Intermediate Result
L.	*Lempira* (Honduran currency)
LAC	USAID Bureau for Latin America and the Caribbean
OECD	Organisation for Economic Co-operation and Development
PMRTN	*Plan Maestro de Reconstrucción y Transformación Nacional* (Post Hurricane Mitch National Reconstruction and Transformation Master Plan)
PODER	Program sponsored by CARE promoting rural food-for-work
PPC	USAID's Bureau for Policy and Program Coordination
PRGF	Poverty Reduction and Growth Facility
PRSP	Poverty Reduction Strategy Paper
PVO	Private Voluntary Organization
R4	USAID Results Review and Resource Request
RIG	Regional Inspector General (USAID)
SO	Strategic Objective
UNAT	*Unidad de Apoyo Técnico* (Technical Support Unit in the Office of the Presidency)
UNICEF	United Nations Children's Fund
UNITEC	*Universidad Tecnológica Centroamericana* (Central American Technological University)
UNDP	UN Development Programme

Executive Summary

Honduras, one of the poorest countries in Latin America, has been focusing on strategies to reconstruct and transform its economy since the devastating impact of Hurricane Mitch in 1998. Honduras began its democratization process in 1981, and elections have been held regularly since then. In 2001, the government completed a Poverty Reduction Strategy Paper (PRSP) in response to the World Bank and International Monetary Fund's (IMF) Heavily Indebted Poor Country (HIPC) initiative. The PRSP maps out a medium-term expenditure framework for poverty reduction programs.

USAID Honduras has operated a program of about $31 million annually (excluding an emergency supplement of $293 million provided by Congress after Hurricane Mitch). USAID Honduras's program emphasized, in order of funding importance, health and education, economic growth and natural resources management, decentralization and municipal government, and democratic governance. Over half of the regular assistance monies in the portfolio are allocated every year to the delivery of health and education services to poor people. However, two-thirds of the Hurricane Mitch reconstruction program was allocated to the improvement of key physical infrastructure.

This assessment examines the USAID Honduras portfolio through the lens of USAID's Bureau for Policy and Program Coordination's conceptual framework for comparing USAID's sustainable development approach with the poverty reduction paradigm evolving in the World Bank, the IMF, and other development aid agencies. The poverty reduction approach looks first to identify who is poor, where they live, and what causes their poverty, and then gives top priority to interventions that address improvements in their quality of life. However, poverty reduction is not USAID's overarching goal. This assessment asks whether USAID is nevertheless engaged in poverty reduction programming, whether it has modified its assistance strategy to be consistent with the PRSP approach, whether it has supported the PRSP process, and whether it can enhance the poverty reduction impact of its portfolio.

The assessment finds that, in most respects, USAID's focus on broad-based sustainable development works effectively as a poverty reduction approach. More specifically, the assessment team finds that

- USAID Honduras is one of the few management units in the Agency that comes close to adopting poverty reduction as an overarching goal. Within this framework, the mission has maintained (at least until now) a strong emphasis on economic policy reform, even though over half of its $31million per year portfolio supports the direct delivery of social services to poor people.

- USAID Honduras's program is well focused on the poor, especially in health and education, and incorporates many poverty reduction objectives. The economic growth portfolio focuses on the delivery of technical and marketing assistance to small and medium-sized businesses, as well as microfinance initiatives that provide a safety net to smooth the consumption of the poorest. The municipal development and decentralization program focuses on establishing new services in poor neighborhoods and supporting grassroots community groups. USAID Honduras was a pioneer in the introduction of administration of justice as a public policy issue, which has an important impact on poor people, and provides key support to the still nascent civil society sector.

- Honduras needs additional policy and institutional reform in many areas, particularly public sector salary policy, rule of law, and modernization of the state. This raises the question of whether there is an appropriate balance between institutional and policy reform and the delivery of services to poor people. USAID Honduras's portfolio is heavily skewed toward the latter, mainly because of congressional ear-

marks and the USAID results management system. Earmarks make it difficult for USAID program officers to balance direct and indirect approaches to poverty reduction and to resolve potential inconsistencies between funding availability and program needs.

- USAID Honduras played a key leadership role in the development of Honduras's PRSP. While most missions evaluated in this study modified their programs in response to the PRSP, the Honduran PRSP adopted many of USAID Honduras's programming goals. USAID Honduras also played an important and critical role in focusing the donor community and civil society on the PRSP process. Allocating funds to support the process, USAID Honduras further influenced and shaped the PRSP in sectors where it had a track record of successful experience. Most notably, USAID Honduras significantly influenced the PSRP in the areas of administration of justice, municipal development and decentralization, transparency and anticorruption, health and education, and economic policy reform.

- Key to successful USAID Honduras involvement in the PRSP has been the high level of donor coordination achieved in Honduras. Important factors were the leadership of individual personalities in both the U.S. country team and the donor community, the impact of special circumstances such as hurricane reconstruction on the preparation of the PRSP, and the willingness of the host country government to engage in a collaborative dialogue with donors. Whether these circumstances will continue to be favorable in the near future is not clear.

- The recent Honduran experience illustrates the importance of regarding poverty as a multidimensional concept. While income-based poverty indicators show little improvement since 1990, some social indicators—especially those for health status and access to potable water and sanitation facilities—show significant gains. This improvement in the human capital of poor Honduran households will enable them to achieve higher income levels over the long run. However, successful achievement of sustainable growth will require major legal, institutional, and policy reforms. ■

Background

Purpose of this Assessment

The World Bank, the IMF, UN agencies, most bilateral donors, and some developing countries have now made poverty reduction their overarching development goal. In the most heavily indebted poor countries, debt relief is linked to the development of a national Poverty Reduction Strategy Paper (PRSP) that is reviewed by the World Bank and the IMF. The multilateral development banks regard the PRSP as the country's focus document, which each member of the international donor community is expected to support, or "buy into." Despite international commitments by the U.S. Government to poverty reduction, USAID Honduras's guiding principle for development assistance remains sustainable development. Poverty reduction is not an overarching goal; rather, it is considered an important and desirable outcome of sustainable development.

This assessment is one of a series of country case studies examining how USAID field missions operate in countries where the partner government and donor community have shifted to the new poverty reduction focus. This report assesses USAID's experience in Honduras. Other reports examine experience in Uganda, Mali, and Romania. The purpose of this assessment is not to evaluate the USAID portfolio. Rather, it is to evaluate the extent to which USAID's approach is an effective poverty reduction approach—even though poverty reduction is not the overarching development goal. The assessment also examines how USAID participated in the development of the PRSP and to what extent USAID has modified its approach as a result. It is hoped that information on USAID's approaches in poor countries adopting a poverty reduction focus

will provide important insights into the Agency's own development strategy.

What Is a Poverty Reduction Approach?

A "poverty reduction approach" makes the reduction of poverty the explicit, overarching goal. Program interventions are designed around an analysis of who is poor, where the poor live, and what the poor do for a living. It examines whether they are net buyers or sellers of food, labor, and services; what economic and social problems they face; and the kinds of risk to which they are most vulnerable. Conceptual differences exist between USAID's sustainable development approach and what proponents of the new poverty reduction approach consider important. These conceptual differences, based on work by Salinger and Stryker (2001), are summarized below. A poverty reduction approach, in comparison to a sustainable development approach

- has poverty reduction as an overarching goal
- pays greater attention to the measurement of the specific poverty reduction impact of various interventions
- gives greater priority to health and education services, and the extent to which these are targeted toward the needs of the poor
- gives mixed priority to economic growth; openness to trade, investment, and information flows; and agriculture
- gives greater attention to the explicit empowerment of the poor
- is strongly concerned with mitigation of risks faced by the poor (vulnerability)
- places greater emphasis on public sector institutions as partners, as opposed to nongovernmental or private sector organizations
- places greater emphasis on interventions that directly target the poor as immediate beneficiaries, and less emphasis on indirect approaches that emphasize broader economic or policy environments
- is concerned with the coherence between non-development policies pursued by the United States and other OECD governments and development policies pursued by USAID

Issues Examined and Methodology

This assessment was based upon the responses to a number of questions:

- Is USAID pursuing a different program strategy in a country, such as Honduras, that is pursuing a poverty reduction strategy?
- To what extent has USAID followed its traditional sustainable development approach or modified its approach?
- To what extent is USAID's approach consistent with a poverty reduction approach?
- What is USAID's relationship to the country's PRSP process? How involved is the USAID mission with discussions on the Heavily Indebted Poor Countries (HIPC) initiative?
- How have congressional earmarks affected budget allocations within the mission and thus helped or constrained the implementation of a poverty reduction approach? What would be different if there were no earmarks?

The assessment team comprised a team leader from the Evaluation Studies Division of USAID's Bureau for Policy and Program Coordination (PPC), an economist, a public health specialist, and a democracy expert. Field work was completed in June 2002. Interviews were conducted with staff of the USAID mission; representatives of the Government of Honduras, other donor agencies, international financial institutions in Honduras, and USAID Honduras's contracting or cooperating partners; and other knowledgeable individuals. Information on Honduras's economic and political environment is presented in the next section; this is followed by

an analytical description of USAID Honduras's programs and their consistency with a poverty reduction approach. ■

Recent Developments in Honduras[1]

Economic Growth Trends

A History of Slow Economic Growth

Honduras, one of the poorest countries in USAID's Latin American and Caribbean (LAC) region,[2] has a long history of slow economic growth. The occasional brief spurts of strong economic performance generally have coincided with high coffee or banana prices. The county's per capita GDP declined during the so-called "lost decade" of the 1980s, but the decline was less than elsewhere in Central America because of massive inflows of U.S. economic and military assistance. These high assistance levels kept the exchange rate stable (at 2 *lempiras* to the dollar) and inflation low, but they allowed Honduras to incur large fiscal deficits that were unsustainable when U.S. assistance began to fall when the civil wars in neighboring countries wound down in the late 1980s and early 1990s.

In June 1990, Honduras reached an agreement with its international creditors that allowed it to clear debt service arrears of approximately $250 million to international financial institutions and several bilateral donors. As part of this agreement, the government initiated a major economic reform program that included a devaluation of the *lempira* and adoption of a controlled float based on an auction system for foreign exchange, trade liberalization, elimination of most interest rate and price controls, and adoption of a broad agricultural modernization law.

Macroeconomic policy has been fairly good since then. Inflation has been reduced from an annual rate of nearly 30 percent in 1995 to about 7 percent as of mid-2002. The fiscal deficit has been kept within reasonable bounds, except for 1) the ballooning of public expenditures to unsustainable levels in 1992–1993, which led the successor administration to implement an austerity program in 1994, and 2) the recent sharp increases in public sector salaries, especially for teachers and medical professionals, based on actions initiated by the Honduran Congress in 1997. The exchange rate has experienced some real appreciation, but the central bank's controlled float of the nominal exchange rate has been widely accepted by the business community.

The improved economic policy environment in the 1990s contributed positively to economic growth, which, prior to Hurricane Mitch, seemed headed for an average annual growth rate of about 4.2 percent, close to 1.5 percent per capita.[3] However, the damage caused by Mitch lowered average GDP growth to 3.2 percent (0.5 percent per capita) for the years 1991 through 2000. The GDP growth rate in 2001 was estimated at only 2.6 percent, reflecting the country's high vulnerability to unfavorable world economic trends (including depressed coffee prices and the U.S. recession) and natural disasters (drought). The 2002 growth rate is likely to be similar to that in 2001.

Actual GDP growth in the 1990s was probably somewhat higher than the reported figures, mainly because *maquila* (assembly) production, most of which consists of apparel, is underestimated in the national accounts. Value added by the rapidly growing *maquila* sector grew from an estimated $10 million in 1990 to $662 million in 2000. Honduras is now the leading Central American exporter of apparel to the United States.

Political Trends

Like many other Latin American countries, Honduras has a long history of frequent, irregular

[1] This section draws to a considerable extent on Zuvekas (2002).

[2] According to the World Bank's World Development Indicators database (2002), Honduras had a per capita GDP of $924 in 2000. Within the LAC region, only Haiti and Nicaragua had lower per capita GDP figures. However, Honduras ranks higher within the region on some health and education indicators. For example, it has achieved close to universal vaccination of children against the major childhood diseases.

[3] A GDP growth rate of 4.2 percent is not especially impressive, but this figure would have exceeded the LAC region average during the 1990s.

changes of government, with the military often playing a direct or strong indirect role in the administration of governmental affairs. The last 20 years, however, constitute a major break from this pattern.

In November 2001, Honduras held its sixth consecutive presidential election in a regular four-year cycle of completed presidential terms that began with the 1981 elections. The two major political parties—the *Partido Liberal* (L) and the *Partido Nacional* (N)—have alternated in power since then according to the following pattern: L-L-N-L-L-N. Although the first two elections in the 1980s generated some concerns, subsequent elections have been characterized by a relatively high degree of freedom and fairness. Considerable intraparty competition exists for securing the presidential nominations. The political influence of the military has declined steadily since the mid-1980s.

At the risk of oversimplifying, the *Partido Liberal* and the *Partido Nacional* can be considered roughly comparable to the U.S. Democratic and Republican parties, respectively. Both are fairly close to the center of the political spectrum, the *Partido Liberal* a bit to the left and the *Partido Nacional* a bit to the right. Several minor parties are also usually represented in the legislature, and at times (including the present) they are important to the formation of a legislative majority.

The participation of women in government has exhibited mixed trends and remains especially weak in the legislature. At one point in the previous administration, seven women were cabinet ministers or in cabinet-level positions, some of them major, but these advances do not appear to have been sustained.

Civil society organizations have been gaining strength and have been less subject to repression than those in some other Central American countries, especially since banana workers gained recognition of their union in 1954. The limited effectiveness of these groups in the past derives mainly from their internal institutional weaknesses and the fragmented nature of their efforts. Since Hurricane Mitch, civil society organizations have increased their collective efforts and gained a growing voice in public policymaking, although few of them can be considered strong.

Notwithstanding these and other positive steps in the process of democratic development, Honduras still suffers from weak judicial and legislative institutions, an inefficient executive branch, and widespread corruption (which, to be fair, also characterizes the private sector). Corruption, however, has begun to be addressed, in part because of growing pressures from the international community as well as Honduran civil society. Transparency International ranked Honduras last among 18 Latin American and Caribbean countries, and ninety-fourth out of 99 countries worldwide, according to its Corruption Perceptions Index for 1999. However, by 2001 the country's ranking within the region had improved to fifteenth, and its worldwide position was tied for seventy-first of the 91 countries ranked by Transparency International (2001).

A major issue in the 2001 presidential campaign was the growing problem of crimes against persons and property. While both major candidates promised strong action, the Honduran public probably viewed winning candidate Ricardo Maduro of the *Partido Nacional* as having the stronger commitment because his son was killed in a kidnapping incident in the 1990s.

Poverty Trends

Poverty Reduction Results Mixed

The Honduran PRSP, discussed below, explicitly treats poverty as a multidimensional concept, reflecting what is now a broad international consensus (see, e.g., World Bank 2001). A broad definition of poverty is important for policy purposes because it makes clear that a focus on economic growth and rising *average* incomes, while essential for reducing poverty over the long run, does not attack all the root causes of poverty. Still, income-based measures of poverty are an appropriate starting point.

A consistent series of poverty indicators in Honduras, based on multipurpose household surveys, is available annually since 1991 (except for

2000). At first glance, the figures seem to show a significant reduction in the incidence of poverty over the last decade, from 74.8 percent in 1991 to 64.5 percent in 2001. However, because income-based poverty has different conceptual, methodological, and measurement meanings in each country, it is risky to compare the incidence of poverty in Honduras with that in other countries. Thus, the actual reduction was probably significantly less than 10 percentage points. First, the high 1991 figure was very likely a temporary spike reflecting the release of repressed inflation in 1990, when the *lempira* was devalued and price controls eliminated or reduced. Second, the reported rise in real incomes after 1991 partially reflects improvements in the measurement of income rather than an actual increase.[4]

Extreme poverty—defined as insufficient income to meet minimum nutritional requirements—reportedly fell from 54.2 percent in 1991 to 47.4 percent in 2001. This was less than the reported reduction for overall poverty. However, the actual reduction was probably minimal. Extreme poverty in rural areas fell initially, but even according to the reported figures, at 60.5 percent in 2001, it was slightly higher than the 59.9 percent reported in 1991.

When poverty is defined in terms of satisfaction of a set of six basic needs,[5] the household surveys show greater progress in reducing the incidence of poverty during the 1990s. The incidence of unsatisfied basic needs fell from 67 percent of households in 1990 to 48 percent in 1999. Households with two or more unsatisfied basic needs fell from 42 percent of households to 22 percent over the same period. The most progress occurred in education, and the least in the two housing indicators. As with income-based indicators, needs-based indicators show poverty to be greater in rural areas than in urban areas (58 percent and 37 percent, respectively, in 1999).

Nutrition indicators provide a mixed picture of recent trends. Honduran Government data show that the incidence of undernourishment among first-graders, age six and older, improved from 39.8 percent in 1986 to 34.1 percent in 1990, but then increased to 40.6 percent in 1997 (Honduras 2001, 10–11). However, these data are difficult to relate to other poverty indicators because nutritional status is determined largely by food consumption (and health) in the first few years of life. Thus, the data for 1997, the latest available in this series, probably reflect conditions in the early 1990s more than those of 1997. Accordingly, these data do not provide a clear indication of whether nutritional status actually deteriorated during the 1990s. A more optimistic picture of recent trends in nutritional status comes from USAID-supported Demographic and Health Surveys (DHS), carried out at five-year intervals, that show a steady decline in the incidence of childhood malnutrition from 43 percent in 1991 to 38 percent in 1996 and 32 percent in 2001.

The PRSP Process in Honduras

Honduras was declared eligible for debt relief under the HIPC initiative in the aftermath of Hurricane Mitch, which caused an estimated $3.8 billion in damage to the economy in October 1998.[6] The country reached its HIPC decision point in July 2000, when the IMF and World Bank accepted its interim PRSP and the IMF approved the government's macroeconomic and structural reform performance under an economic program that was supported by a three-year Poverty Reduction and Growth Facility (PRGF) loan signed in March 1999.

The final version of Honduras's PRSP (Honduras 2001) was accepted by the IMF and World Bank in October 2001. If Honduras had been successfully implementing its poverty reduction strategy, and complying adequately with its PRGF conditionality, it could have reached its HIPC completion point—and thus become eligible for full HIPC

[4] In making its own estimates of poverty, the World Bank has adjusted downward the household survey income figures to bring their growth in line with GDP growth in the national accounts. However, to the extent that GDP growth is understated (see discussion above), the World Bank's adjustments go too far.

[5] The six indicators are: potable water, sanitary services, primary education, capacity of the household to provide sustenance (a combination of education of the head of household and employment), housing space (no overcrowding), and housing quality.

[6] Honduras had expressed an interest in seeking HIPC status even before October 1998, but its income level was probably too high, and its debt indicators not sufficiently burdensome, to make it eligible under the criteria in force at the time. The weakening of the Honduran economy by Hurricane Mitch, and the more liberal HIPC eligibility rules adopted in 1999, facilitated the country's incorporation into the initiative.

debt relief benefits—as early as October 2002. However, fiscal problems caused by revenue shortfalls related to the U.S. recession and to depressed coffee prices, as well as by weak tax administration and insufficient control over public sector salary increases, have already pushed back the HIPC completion point to March 2003. Progress on structural reforms, including privatization and government modernization, also has been slow. Implementation of the PRSP likewise has lagged because of fiscal problems, the change of government in January 2002, and the chronic weaknesses of the country's implementation capacities.

Civil society participation in public policymaking, traditionally weak in Honduras, was strengthened after Hurricane Mitch, partly because external donors prodded the government to involve civil society in preparing the country's reconstruction plan (Honduras 1999).[7] Civil society played an even greater role in the preparation of the PRSP. While this involvement was perhaps not as extensive or intensive as it was in Uganda (Lieberson, et al. 2002), it represents a major advance for Honduras.

Since late 1998, the international donor community has played an aggressive and positive role in facilitating consultations between the government and civil society. This involvement was made formal in the efforts of the Group of Five (now the Group of 15) external donors charged by the Stockholm Consultative Group with monitoring the implementation of the reconstruction and transformation plan (*Plan Maestro de Reconstrucción y Transformación Nacional—PMRTN*).[8] The Group of 15 established 13 sectoral working groups—including one on economic growth and poverty reduction—that have held periodic bilateral (donors-government) and trilateral (donors-government-civil society) meetings.[9] Not all working groups have effectively resolved implementation problems and generated new ideas, but the macroeconomic policy and poverty reduction group has. Its scope, and that of the other working groups, now includes monitoring the implementation of the PRSP as well as the PMRTN. USAID Honduras has been a key player in most of the working groups, notably those dealing with macroeconomic policy and poverty reduction, justice, decentralization and municipal development, education, health, and transparency and governance. Under the Maduro Administration, which took office in January 2002, the original 13 working groups have been consolidated into seven newly structured groups.[10]

Initial PMRTN consultations between the government and civil society were tentative, incomplete, not fully transparent, and characterized by high levels of mistrust. The confrontational attitude adopted by some civil society groups, and the government's reluctance to share more than summaries of its PMRTN drafts, limited the extent of the dialogue. Over time, and especially during the course of preparing the PRSP, both sides became more comfortable with the process, and the quality of the dialogue improved. One of the last drafts of the PRSP was circulated widely prior to consultations in 13 cities throughout the country, and the final version of the strategy was posted on a Honduran Government website. Other donors have a positive view of the consultation process with civil society, although some would have liked to see more civil society participation in the actual drafting of the PRSP.

Elements of the Honduran Poverty Reduction Strategy

The PRSP covers a 15-year period and is viewed as a broad commitment of Honduran society that can transcend changes of government. Its 11 broad targets are based on the international goals for 2015

[7] Space limitations preclude a discussion of the meaning of civil society. In Honduras, the term tends to be defined broadly to include not only grassroots groups and NGOs, but also private business groups, local governments, and political parties.

[8] The Group of 15 has performed its monitoring role at three levels: political (ambassadorial), technical (heads of development programs), and sectoral working groups.

[9] The original 13 working groups covered the following areas: education; health; agroforestry, environment, and watersheds; disaster mitigation and prevention; decentralization and municipal development; justice; transparency and governance; housing; bridges and roads; water and sanitation; micro, small, and medium-sized enterprises; rural development and food security; and macroeconomic policy and poverty reduction.

[10] The new groups are governance and human rights, human development, social safety nets, macroeconomics and competitiveness, roads and social infrastructure, agricultural development and rural environment, and environment and risk management.

adopted by the UN, the OECD, and the World Bank. The first target is to reduce the incidence of poverty and extreme poverty by 24 percentage points, from 66 and 49 percent respectively in 1999, to 42 and 25 percent in 2015. Other targets focus on net school enrollment (preschool, primary, and first cycle of secondary); secondary school completion; infant, child, and maternal mortality; undernutrition; potable water and sanitation; gender equality; and the environment.

The PRSP sets forth five strategic guidelines for defining and prioritizing policies, programs, and projects:

1. Prioritize actions that tend to reduce poverty in a sustainable manner
2. Prioritize actions favoring the least developed groups and geographic areas of the country
3. Strengthen civil society participation and decentralization
4. Strengthen governance and participatory democracy
5. Reduce environmental vulnerability and its impact on poverty

The strategy is to be implemented through policies, programs, and projects in six areas:

Accelerating economic growth by a) ensuring a stable macroeconomic framework (basically adhering to the program supported by the PRGF), b) creating more and higher quality jobs by increasing investment and improving its efficiency, c) improving competitive access to world markets through trade reforms, and d) emphasizing the development of sectors with high production and employment potential (agro-industry, forestry, light assembly, and tourism).

Reducing rural poverty by a) providing more equitable access to land and greater land tenure security; b) promoting participatory development in highly vulnerable geographic areas; c) improving small producers' access to infrastructure, market-support services, technology, and credit; and d) expanding the provision of social services (water, sanitation, housing) and food assistance.

Reducing urban poverty by a) stimulating the development of micro, small, and medium-sized enterprises; b) promoting the development of intermediate cities and their hinterlands; c) supporting low-income housing programs; and d) improving access to basic services (water, sanitation, electricity, and transport).

Investing in human capital by a) improving the quality and coverage of basic and technical education; b) increasing access to and improving the quality of health services; and c) enhancing the country's cultural wealth, strengthening national identity, and promoting civic, ethical, moral, and democratic values. (Consultations with civil society revealed that the Honduran public gave high priority to this last set of actions.)

Protecting specific vulnerable groups through a) improvements in social safety net programs and b) legal and institutional reforms.

Guaranteeing the sustainability of the strategy through a) greater transparency and participatory democracy, b) strengthening the administration of justice and personal security, c) modernizing and decentralizing government services, and d) improving environmental protection and risk management.

USAID, the PRSP Process, and Donor Coordination

USAID Honduras participated in the PRSP process though its efforts in the Group of 15 working groups and the financing of consultant services to the *Unidad de Apoyo Técnico* (Technical Support Unit), an economic policy group under the Ministry of the Presidency that prepared the PRSP and coordinated civil society participation. In addition, USAID Honduras staff engaged in dialogue with a number of Honduran Government ministries on various aspects of the PRSP, and participated in some of the PRSP consultation meetings between the Government of Honduras and civil society representatives.

USAID Honduras's participation in the PRSP was characterized as having broadened the strategy's long-term vision and strengthened its long-term development content. When asked whether and to what extent the PRSP process affected programming decisions, comments consistently indicated that the reverse occurred, i.e., the PRSP adopted many USAID Honduras programming goals. USAID Honduras played an important and critical role in focusing the donor community, as well as civil society, on participating in the PRSP process. It further influenced and shaped the PRSP in sectors where it had a track record of successful experience. For example, USAID Honduras played a principal role in the justice and municipal development and decentralization sectors, where the mission had been active for many years. The effect of the PRSP on USAID programs was relatively slight because these programs already reflected goals and objectives consistent with poverty reduction.

USAID Honduras was instrumental in incorporating transparency and anticorruption issues into the PRSP. USAID Honduras pressed these issues and, ultimately, its indicators in these areas were included in the PRSP. Transparency and anticorruption goals were adopted into the PRSP matrix and, consequently, into overarching national development strategies. USAID Honduras's involvement facilitated public discussion and debate to a degree that would not otherwise have occurred. USAID Honduras can take much of the credit for this achievement.

Representatives of other bilateral and multilateral donors and Honduran Government entities were nearly unanimous in telling the evaluation team that the United States played the most important leadership role within the Group of 15, at both the ambassadorial and technical levels. The role of the U.S. ambassador was widely praised, as was that of the USAID Honduras program economist. Interviewees also frequently mentioned positively the leadership of the USAID Honduras mission director, whose long tenure ended in 2000.

Donor coordination has been strong in Honduras since 1998 for three basic reasons. First, the PMRTN, developed in the aftermath of Hurricane Mitch, provided a unifying focus for donors, particularly with respect to the six principles adopted at the Stockholm meeting in May 1999.[11] As the reconstruction phase wound down, donors transferred their attention naturally to the PRSP, particularly since the policy framework for this document reflected a high degree of continuity with that of the PMRTN. The second factor contributing to effective donor coordination was the key role of several individuals, notably the U.S. ambassador and the Swedish Embassy's development advisor, both of whom came to Honduras from Bolivia, where they had had positive experiences with donor coordination in a country whose level of development was similar to that of Honduras. Third, donor coordination was effective because the Flores Administration (1998–2002) was receptive to the idea and willing to accept many donor suggestions.

It is difficult to know whether Honduras's successful model of donor coordination will be sustained. The departure of the U.S. ambassador late this year will create a leadership void that may or may not be filled. Moreover, the new Maduro administration's view of donor coordination and donor-Honduran Government dialogue is not yet clear. Donor representatives provided mixed responses to the evaluation team's inquiries on this subject. Some described the sectoral working groups as having been nearly inactive since mid-2001, first because of the election campaign and then because the new administration has been preoccupied with public sector wage disputes and personal security issues. Others, however, pointed out that all of the seven reorganized working groups have met at least once, and that another round of meetings is expected to be held soon to discuss a draft of the administration's governing plan (*Plan de Gobierno* 2002–06). Leadership in the working groups has passed from the donor community to the Honduran Government, specifically to the vice ministers assigned to the seven new groups. In many respects, this can be regarded as a positive evolution, especially if the vice ministers prove to

[11] Briefly stated, these principles are reduction of economic and social vulnerability, transparency and human rights, decentralization and civil society participation, human rights, donor coordination, and debt relief.

be proactive. How influential and unified the donor community will be under this new arrangement is not yet clear. ■

USAID Honduras's Strategic Approach

Poverty Reduction as an Overarching Goal

Interviewees in the donor community, Honduran Government, and private sector commented that USAID Honduras's program has been focused on poverty reduction through its policy- and institutional-reform efforts and its assistance to small farmers and other producers. As early as 1996, USAID Honduras was giving primary emphasis to economic growth as the principal mechanism for reducing poverty over the long run. Investment in the human capital of the poor was regarded as another important mechanism for reducing poverty. The mission's proposed strategy for FY2004–08 sharpens this focus and adopts a more holistic approach to sustainable economic growth and poverty reduction, with the entire portfolio of activities linked explicitly to both themes.

Poverty reduction or poverty alleviation. While USAID documents often refer to the mission's and Honduran Government's efforts as poverty alleviation, they are more appropriately described as poverty reduction activities, which have more permanent development effects. While the two terms are often used interchangeably, it is important to distinguish between them. The key differences are summarized in Table 1 and at more length in Annex 2.

Focusing on poverty reduction. USAID Honduras does not specifically identify poverty reduction as its overarching objective. However, the mission has long had a strong and continuous focus on poverty reduction from FY1996 to the present, as shown in Table 2 and summarized below.

FY1996–2001. The first strategic objective (SO1) in the mission's March 1996 R4 document is "Enhanced Economic Participation and Increased Incomes of the Poor" (USAID Honduras 1996). Intermediate Results (IRs) under this SO emphasize expanded access by the poor to productive resources (IR1.1) through improved functioning of markets (IR1.2) and investment in people (IR1.3). The mission's funding request for activities in FY1996–98 under this strategic objective amounted to 29 percent of its total proposed portfolio. Some activities under the mission's three other SOs also had a poverty reduction focus.[12]

Table 1. Key Differences Between Poverty Alleviation and Poverty Reduction

Poverty Alleviation	Poverty Reduction
Relieves symptoms	Attacks root causes
Short-term focus	Long-term focus
Transitory effects	Permanent effects
Consumption expenditures	Investment expenditures

The poverty reduction focus was continued in the mission's FY1998–2003 strategic plan, which was completed in May 1998 (USAID Honduras 1998). However, there was a downward adjustment in funding levels. As in the 1996 document, SO1 dealt with access to economic opportunity and resources.

The FY1997–98 strategic plan notes that the embassy's FY1999–2000 mission performance plan identifies economic concerns as having the highest priority for the United States: "Joint U.S.-Honduran interests clearly rest with broad-based economic growth which is related to alleviating [i.e., reducing] poverty …" (U.S. Embassy Honduras 1998, 2). The strategic plan further argues that, by supporting the ongoing transition to participatory democracy and an open economy, "the mission and our development partners can contribute to a *reduction in Honduran poverty* …"

[12] The other SOs were "Effective Stewardship of Key Natural Resources for Sustainable Economic Growth" (SO2), "Improved Family Health" (SO3), and "More Responsive Democratic Processes with Greater Citizen Participation" (SO4).

[13] The other objectives were natural resources and biodiversity (SO2), family health (SO3), and democracy (SO4).

Table 2. Comparison of USAID Honduras Poverty Reduction-Related Strategic Objectives, FY1996–2001

	R4 (March 1996)	Strategic Plan FY1998–2003	R4 (April 2001)
SO1	Enhanced Economic Participation and Increased Incomes of the Poor	Expanded and Equitable Access to Productive Resources and Markets	Economic Reactivation Meeting the Needs of the Poor
IR 1.1	Expanded Access by the Poor to Productive Resources Economic Growth	Improved Policy Environment Conducive to Poverty Reduction through Economic Growth	Improved Policy Environment Conducive to Poverty Reduction through
IR1.1.1		Consolidated and Improved Economic Policies to Alleviate Poverty	Consolidated and Improved Economic Policies to Alleviate Poverty
IR1.1.2		Expanded Culture of Open Markets and Entrepreneurship	Expanded Culture of Open Markets and Entrepreneurship
IR 1.2	Expanded Access and Opportunity through Improved Functioning of Markets	Improved Market Access and Competitiveness by the Poor	Improved Market Access and Competitiveness by the Poor
1.2.1		Increased Economic Activity by Small Farmers and Other Entrepreneurs	Expanded Business and Financial Services to Micro and Small Businesses
1.2.2		Expanded Financial Services to Microenterprises	Expanded Agricultural Extension and Financial Services to Agricultural Producers
IR 1.3	Expanded Access and Opportunity through Investment in People	Increased Educational Attainment	
1.3.1		Improved and Expanded Basic Education	
1.3.2		Increased Number of Vocational Center Graduates Employed	
IR 1.4		Sustainable Pine Forest Management Practices Extended	
1.4.1		Improved Institutional Capacity	
1.4.2		Increased use of Proper Forest Management Practices	
1.4.3		Increased Access to Economic Opportunities	

(emphasis in original) (U.S. Embassy Honduras 1998, 13).

Planned funding obligations for SO1 for FY1998–2002 were 41 percent of the total requested portfolio level. The environment SO was to receive 4 percent, the family health SO 40 percent, and the democracy SO 16 percent. However, when $25 million in P.L. 480 Title III funds never materialized, SO1's share fell to 29 percent.

The strong focus on poverty reduction also is further continued in USAID Honduras's R4 of April 2001, whose SO1 is "Economic Reactivation Meeting the Needs of the Poor." The IRs reflect a substantial degree of continuity with those in the 1996 R4 (USAID Honduras 2001). There are, however, some differences. IR1.2 in the 2001 R4 is largely a combination of IRs 1.1 and 1.2 in the 1996 R4. The policy environment IR (IR1.2) is new, but some of the activities were already in the mission's 1996 portfolio. IR1.3 in the 1996 R4 appears in the 2001 R4 in part as a separate objective (SO6) "Improved Opportunity to Obtain Basic Education and Vocational Skills" and, to a lesser extent, as an IR under SO5 "Critical Hurricane Reconstruction Needs Met."

The 2001 R4 reflects a sharp increase in the size of the mission's portfolio, which by then included a $293 million supplemental assistance package for reconstruction in the aftermath of Hurricane Mitch, which devastated Honduras in October 1998. According to the 2001 R4, "the [hurricane reconstruction program] … underscored the importance of economic growth as a critical factor in the reconstruction and to long-term poverty reduction in Honduras" (USAID Honduras 2001, 9). Poverty reduction is referred to as "the foremost long-term economic challenge facing Honduras" (USAID Honduras 2001, 11). USAID Honduras activities "in support of economic growth and poverty reduction" include policy reforms to improve the policy environment and investment climate, and improved access to markets and services for small and micro businesses (USAID Honduras 2001, 11). Also mentioned is the technical assistance that USAID Honduras provided to the Honduran Government preparing the PRSP (USAID Honduras 2001, 9). The PRSP "recognizes that poverty reduction requires vigorous economic growth, [and] this continues to be the central focus of USAID Honduras policy efforts" (USAID Honduras 2001, 13).

FY2002–08. The mission's most recent planning document is its 2002 "Concept Paper for FY2004–FY2008 Strategy." The organizing principle of this proposed strategy "is to support Honduran efforts to achieve *sustainable economic growth and poverty reduction*" (emphasis in original). To this end, the mission (USAID Honduras 2002, 4) proposes

- reducing the number of SOs from six to four
- concentrating efforts geographically on second ary cities with high growthpotential, and strengthening backward and forward linkages in rural areas to promote increased prosperity
- creating an enabling environment for private sector trade and investment by focusing on interventions that enhance Honduras's productivity and competitiveness
- supporting efforts to improve workforce productivity through increased access to basic and vocational education by Honduras's current and future workforce
- improving maternal and child health, reducing infectious disease, and lowering population growth
- focusing on key elements of Honduras's governance and rule of law that will contribute to increased private sector investment, productivity, and competitiveness, including decentralization, transparency, and a new code of civil procedure

USAID Honduras expects to see, by the end of the strategy period, "increased levels of trade, more high quality and diversified private investment, and increased employment, *all of which will contribute to*

significant reductions in poverty" (emphasis added). Activities in all SOs are explicitly linked to poverty reduction. Examples include "the health of the rural sector is key to overall poverty reduction" and "it is not possible to reduce poverty in Honduras without a substantial improvement in the quality of its human capital." For programs directed primarily at poverty alleviation, but that also include poverty reduction elements, the emphasis is on careful targeting of USAID Honduras assistance. In the case of the P.L. 480 Title II food program, for example, the focus will continue to be "in selected [geographic] areas of highest poverty and malnutrition." Many elements of the proposed strategy are explicitly linked to, and deemed consistent with, the goals of the PRSP. The proposed distribution of funds for the four new SOs is as follows: sustainable economic growth—26 percent, education—13 percent, health—45 percent, and democracy—16 percent. The prominence of health in this distribution is surprising in view of the strong focus of the narrative on economic growth. (USAID Honduras 2000, 5–15)

Strengthening the poverty reduction focus. Although never the principal objective, all democracy and governance mission personnel interviewed firmly believe that at least the majority of their existing programs already benefit the poor either directly or indirectly. No major substantive changes would likely be necessary if poverty became the guiding principle in the municipal development and decentralization area, although some change in regional emphasis might be made to incorporate more minority populations. For transparency and anticorruption activities, a stronger focus on poverty reduction might place heavier emphasis on creating greater public awareness through education.

To strengthen the poverty reduction focus, the justice sector would probably need to increase the amount of its portfolio directed to short-term results and interventions targeted to poor and marginalized populations. However, programs simultaneously strengthening the overall justice system (and therefore accomplishing only indirect long-term poverty benefits) would still be essential. If poverty were the sole focus of the justice sector, activities would likely include legal aid services for both criminal and civil cases, more attention to resolving the issue of indefinite, lengthy pretrial detentions and criminal file purges, increased community nongovernmental organization (NGO) justice work in the interior and at municipal levels, and work with indigenous populations. In the democracy and governance area and the justice sector in particular, however, the creation of strict poverty-based programs presents significant challenges because of the central concern with issues of civil and political rights, rather than economic development and growth per se.

USAID Honduras Program Funding

USAID Honduras FY1997–2001 funding was just over $155 million, not including amounts budgeted under the Hurricane Mitch reconstruction program. As shown in Table 3 (page 19), almost half was allotted to sustainable family health (SO3). Economic growth and poverty reduction (SO1) and municipal governance (SO7) received 16 percent and 13 percent respectively. Other SOs—natural resources and biodiversity, democratic governance, and basic education—were each allocated funds in the 6–8 percent range.

Priority of Health and Education

Health

Although Honduras has made significant advances in the health status of its people over the past 20 years, its economic status as one of the poorest countries in the Latin American and Caribbean region is reflected in high rates of fertility, maternal mortality, malnutrition, and HIV/AIDS. The immunization rate, however, is the highest in the region, and significant declines have occurred in infant and maternal mortality rates and total fertility. As elsewhere, the majority of health problems are concentrated in the poorest segments of the population, especially in rural areas.

Remarkable gains have been made in reducing total fertility and maternal and infant mortality, and increasing the use of modern contraceptives, but problems remain in poor rural areas. The prevalence of HIV/AIDS is one of the highest in the Americas,

Table 3. USAID Honduras Operating Year Budget Obligations, FY1997–2001*
(thousand dollars)

Strategic Objective	Obligation	Percent
SO1: Economic Growth and Poverty Reduction	25,324	16
SO2: Natural Resources and Biodiversity	13,032	8
SO3: Sustainable Family Health	74,295	48
SO4: Democratic Governance	9,486	6
SO6: Basic Education and Vocational Skills	12,319	8
SO7: Municipal Government	20,902	13
Total	155,358	100

*excludes Hurricane Reconstruction Program funds
Source: USAID Honduras Office of Strategy and Support

and it continues to grow. Health expenditures by the Ministry of Health and the private sector, which total 5.6 percent of GDP, are about average for countries at Honduras's level of development. Increases in this figure will be difficult to achieve unless the government remedies its fiscal problems and reforms a regressive official user-fee system that yields a cost recovery of only 2 percent of health ministry expenditures (Fiedler and Suazo n.d., 13), despite evidence that even the poorest population segments would pay more for quality services.

The Ministry of Health is in disarray. Personnel costs rose from 38 percent of the total budget in 1996 to 61 percent in 2000, a proportion that will continue to rise if demands of doctors' and nurses' unions are met. At the same time, ministry doctors' productivity is diminishing, with many patients opting for more expensive and higher quality private services, despite the additional cost. Although the ministry has greatly expanded its healthcare network in the past decade, it still focuses a large share of its resources on secondary and tertiary curative care, and less on preventive and primary healthcare measures that would reduce the load on higher level health facilities. The ministry's health system has twice as many doctors as nurses, and a preponderance of its administrative personnel serve at the central level. The new government and the ministry advocate decentralization, and some progress in this area has occurred. Yet too much of the budget is spent at the central level and is based on historical costs of health facilities, not patient load or preventive health, which would reduce the strain on higher level services. User fees are higher in rural than in the urban areas by as much as 5 to 1 for some services (Fiedler and Suazo n.d.).

Since the mid-1980s, USAID Honduras's health strategy has emphasized family planning, maternal-child health, nutrition, and, more recently, prevention and mitigation of HIV/AIDS and other infectious diseases for the poorest population segments, especially in rural areas. A focus on decentralization and sustainable services in rural areas has evolved in most of the mission's health activities, including family planning.

Other donors, especially the international financial institutions, have focused on institutional and policy reform, working closely with the Ministry of Health. The UN development agencies are active in both service delivery and policy areas. Some bilateral donors, such as Sweden, have active service delivery programs aimed at the rural poor. Many international NGOs, such as CARE International and the Save the Children Federation, focus on service delivery in rural areas.

USAID Honduras's targeting of its health programs has for many years emphasized the poorest population segments, which were identified from DHS epidemiological information that show this population segment to have the worst health status. The government has relied heavily upon USAID Honduras's health, population, and nutrition staff, contractors, and grantees for development of the health indicators for the PRSP, and USAID Honduras was widely regarded as a key player in this process. Under the Food for Peace Program, a 1995 USAID policy directive on food security resulted in even more precisely targeted programming to benefit the poorest population segments and geographic areas. Donors and NGOs interviewed agreed that USAID Honduras's health portfolio was extremely well-targeted.

The health ministry, donor agencies, and NGOs endorse the decentralization of services to municipalities, especially in the poorest areas—a PRSP crosscutting theme—, and their cooperative service delivery programs are targeted to the poorest geographic areas. The ministry, however, continues to operate with a centralized budget and an inflated staff that uses much of its own revenue to perpetuate a "top-down" system that leaves few resources for the smaller health units, e.g., primary health clinics. However, USAID Honduras's program with the ministry, the Food for Peace Program's health activities, independent NGOs, and smaller municipalities are demonstrating that they can improve the quality of service delivery. In the near future, these programs may create more demand by civil society for devolution of additional resources to remote areas where they can be administered locally.

To maintain significant gains in fertility reduction, with concomitant reductions in infant and maternal mortality, the mission's population program works with the government, the private sector, and municipalities to ensure that comprehensive, quality services, counseling, and contraceptive supplies are accessible to virtually the whole population, but with an emphasis on the poor and rural areas. USAID Honduras contributes to the national family planning association (*Asociación Hondureña de Planificación de la Familia*—ASHONPLAFA), an NGO providing significant services nationwide and working toward sustainability. Grants to the government provide services to the rural poor through a comprehensive reproductive health program with municipal governments and assist the government on policy and program development to help increase coverage.

Table 4. Selected Health Indicators
(in percentage unless otherwise indicated)

	1991	1996	2001
Total fertility rate (number of children per woman)	4.9	4.9	4.4
Contraceptive prevalence	47.0	50.0	61.8
Infant mortality (per 1,000 live births)	45	36	34
Maternal mortality ratio (est.) (per 100,000 live births)	182	–	108
HIV prevalence	–	–	2
Full childhood immunization	–	80	90
Childhood malnutrition	43	38	32
Health expenditure (percent of GDP)	–	5.5a	5.6b

Notes: a 1995, b 1998
Sources: DHS Surveys, Sentinel Surveillance, Partnership for Health Reform

The mission's maternal and child health programs are aimed at strengthening national policies, supporting the highly successful immunization program, providing technical assistance, and ensuring potable water supplies, especially in poor rural areas. At the local level and in rural areas, programs support provision of a key intervention package of immunizations, integrated maternal-child health services, pediatric emergency care, and nutrition education. Technical assistance in quality improvement and program management is provided at all levels.

USAID Honduras has been the largest donor to HIV/AIDS prevention programs, establishing a national sentinel surveillance system, providing rapid HIV tests, training counselors, and working with UNICEF to treat HIV-positive mothers and support a national AIDS health education program. Under an umbrella grant, 15 local NGOs are working with the most affected groups: commercial sex workers, men who have sex with men, and a large Afro-Honduran population in the north. The mission also supports a national condom social-marketing program directed to at-risk groups. Another activity supports training and equipment for case finding, information and communication activities, and improved disease surveillance efforts to reduce infectious diseases, targeting malaria, dengue, and tuberculosis.

The Food for Peace Program is perhaps the most precisely targeted program in the portfolio, focusing on the poorest areas in three western provinces. About half the commodities are monetized to support agricultural extension (23 percent of monetized funds), access to health services (35 percent), and strengthened local government and employment generation (42 percent). The program also seeks to improve food utilization and provides food for work to improve farm-to-market roads and other local infrastructure.

Partnerships for Health Reform—USAID Honduras's health policy project—initially worked closely with the Ministry of Health's Planning Directorate and UNAT to develop indicators for the PRSP, and has been working at both the national and local levels on a rational system of user fees and improving the Ministry of Health's budgeting system. Since 2001, the project has expanded to facilitate decentralization of planning and implementation of USAID Honduras-supported activities in three health regions. A set of guidelines and standards of care for each level of the ministry's service system is nearing completion.

Education

Until the 1980s, Honduras had neglected education, resulting in large numbers of adults and youth who are illiterate or have completed only a few primary grades. When young Honduran males reach adolescence, they are pressured to become income earners. Many drop out of school following grade 6, if not earlier. Now, net early grade enrollment rates are about 90 percent, although enrollment above grade 7 is far lower than needed to increase earnings capacity significantly and provide a major contribution to economic growth.[14] The Honduran enrollment rate in grades 6 and above is higher for females than for males, a reflection of the economic pressures on young men and lack of demand for more skilled workers. Rural enrollment rates continue to lag behind those in urban areas, although the gap is narrowing. As enrollment rates increase, problems with the quality of curricula and teaching skills are receiving more attention from the government and the international donor community.

Education received much attention during the process of preparing the PRSP, with high participation by donor agencies and later by civil society. In various major Honduran cities, the education donor group (MERECE), civil society groups, the Ministry of Education, educators, NGOs, and private sector leaders organized seminars and events focused on educational reform as part of a broader consensus building effort. UNICEF is working with the government on community-based, preschool education, and the international financial institutions have made loans for institutional and policy

[14] USAID estimates that for a developing country to "take off" economically, the ideal school completion rates are 90 percent in primary, 70 percent in mid-level, and 50 percent in high school.

reform. The German aid agency (*Gesellschaft für Technische Zusammenarbeit*—GTZ) has been funding institutional and policy reform measures at the Ministry of Education. The new government has underlined its commitment to improving education, a key PRSP and HIPC initiative.

USAID Honduras's Basic Education and Skills Training (BEST) program has focused on providing alternative education benefiting youth and adults with low levels of education—cohorts left behind by lack of educational opportunity. EDUCATODOS, its cornerstone project, works with the Ministry of Education, using interactive radio instruction to provide primary education for out-of-school youth and illiterate adults. More than 50 percent of the beneficiaries of the program are women, of whom 80 percent are mothers. The project serves about 80,000 students annually. According to a recent study, each year of school completed under this program results in an 11 percent increase in average earnings per student. The program accounts for about 48 percent of the life-of-project budget.

The second major component of USAID Honduras's education portfolio is a vocational education project. Implemented by a Honduran NGO in 32 vocational centers throughout the country, about 8,400 students have graduated during the seven-year span of the project. Graduates have increased their income by an average of $1,000 per year. One-fourth of the USAID Honduras education budget is devoted to this effort.

Smaller amounts of the USAID Honduras education budget fund an interactive radio learning program aimed at reducing failure rates in the first three grades and at improving mathematics skills in the first three grades.

USAID Honduras's education professionals were highly involved in the PRSP process, and the roundtable in which they participate is one of the most active, involving Ministry of Education personnel, NGOs, educators, and private sector leaders. In the future, USAID Honduras will focus on educational policy reform, curriculum development, and technology-based delivery systems at preschool and high school levels.

Table 5. Selected Education Indicators
(percentage—except as indicated)

Literacy Rates	Percentage
Total	80
Male	78
Female	83
Rural literacy	72
Urban literacy	89
Average schooling	5.2 years
Rural adults	3.9 years
Completion of grade 6	67
Enrollment in grades 7–9	35
Enrollment in grades 10–12	23

Source: USAID Human Resources Development/Education and Training.

Priority of Economic Growth, Agriculture, and Trade

Economic growth, agriculture, and trade comprise 13 percent of USAID Honduras's "regular" portfolio (Table 3). Since its inception in 1997, the mission's strategic plan has emphasized economic growth that expands opportunities for the poor. Prior to Hurricane Mitch, economic growth programs were implemented under SO1 "Expanded and Equitable Access to Productive Resources and Markets." After Mitch, the SO was changed to "Economic Reactivation Meeting the Needs of the Poor." Pre-Mitch, the mission tracked the percentage of Hondurans under the poverty line as part of its reporting requirement; however, the number (or percentage) of Hondurans under the poverty line has not been tracked since the 1996 R4.

The most recent SO tracks employment in agriculture, industry, and commerce; real private investment; and exports. However, no indicators measure the direct impact of activities on the poor, or even inputs, such as the number of small farmers receiving technical assistance. Nonetheless, the program does an excellent job of linking economic growth and policy reform to poverty reduction. Furthermore, it shows how project activities pro-

moting the growth of small businesses in secondary cities and rural areas build advocacy for specific policy or regulatory reforms—such as the administrative simplification law permitting more rapid business registration—that will reduce transaction costs.

USAID Honduras's assistance to small businesses has included extension, training, and marketing assistance to farmers (including women) in the export of nontraditional products; establishing business development centers and strengthening local chambers of commerce in secondary cities; and technical and export marketing assistance to processors, agribusinesses (e.g., dairy cooperatives), and artisan groups. Hurricane reconstruction funds were used to provide loans to help farmers and businesses recuperate from the effects of the hurricane. The mission's regular program has continuously emphasized demand-driven enterprise, competitiveness, and awareness of the institutional environment affecting transaction costs. The program recognizes that expanded production increases jobs, many of which match the low skill levels of the poor.

The program also has supported national-level policy advocacy and reform. As originally conceived, the economic SO (SO1) was to provide technical assistance to help the government understand the importance of macroeconomic policy reform and structural adjustment. The program supported a government policy analysis unit and carried out policy studies and dialogue on important monetary, fiscal, trade, and labor issues. The program also provided policy and technical advice on financial market regulation, investment incentives, national income accounts, agriculture, mining, tourism, and light manufacturing. Honduran Government officials praised the program for providing high quality and timely advice. The land titling program for predominantly poor small farmers, which resulted in 167,000 titles (about a quarter given to women) covering 1.2 million ha, contributed to the enabling environment for poverty reduction.

Empowerment and Decentralization (Democracy and Governance)

USAID Honduras's democracy and governance program has contributed to empowerment of the poor through activities aimed at the rule of law, municipal development and decentralization, and transparency and anticorruption. USAID Honduras's strategy and programming documents, however, do not always make explicit the linkages between USAID Honduras-supported activities and empowerment.

Rule of Law

Background. A credible rule of law, supported by a well-functioning justice system that resolves conflicts fairly and efficiently in accordance with clearly established and respected legal norms, is essential to support democratic governance, protect individual human rights, and assure personal security. Moreover, the rule of law is increasingly recognized as a critical component of economic development. The Honduran legal system falls short. Recent efforts to attract investment to Honduras have been undermined by the inadequacy of the legal system in general and a rising crime rate fueled by economic woes. The legal system has been unable to confront rampant corruption in the public sector or to control the increasing crime that threatens public security throughout the country.

For many years, the justice sector in Honduras has operated poorly and has failed to earn the respect or confidence of Honduran citizens. The judicial branch has a long tradition of political patronage; every change in government has been accompanied by substantial turnover of judges and judicial personnel. Judges were reportedly vulnerable to political influence and frequently were accused of judicial misconduct. The justice system was handicapped by outdated legislation and archaic procedural codes, lack of training and legal information for justice system personnel, weak administrative capacity, inadequate budgets, and minimal public credibility. The justice sector in general suffered from high levels of corruption and low ethical standards and practices. The results were arbitrary decisions and abuses of power by government, the economic elite, privileged classes, special interest groups, and other well financed groups or individuals.

USAID Honduras's justice program began in 1989.

At that time, prosecution was supported by a small and passive group of prosecutors *(fiscales)*. No body of full-time public defenders was responsible for representing indigents. Laws were inadequately or unfairly enforced; the majority of reported crimes never culminated in judicial proceedings. The police were poorly trained and inadequately prepared to control the increasing crime—then and increasingly now a major public concern. Over 90 percent of prisoners in Honduran jails had never been tried, convicted, or sentenced; many had been in pretrial detention longer than the maximum sentence for their alleged crime. Judicial proceedings and trials were slow, closed, and conducted under a formalistic system of written procedures.

The wealthy and influential classes in Honduras have historically managed to manipulate or evade the judicial system altogether, while the poor have had no effective defense or recourse. The overwhelming majority of the pretrial detainees being held in jail have come from the poorer classes. Based on a mere accusation and without any credible evidence or formal investigation, a person could be placed in detention for years on the allegation of even a minor offense, without the case ever being heard on its merits. Thus, the law itself became a tool for punishing and manipulating the most vulnerable and defenseless populations.

Over the past 15 years, the justice system has increasingly become a central issue of public concern and dissatisfaction. More recently, it has become a focal point for development. In the course of this evaluation, establishment of a credible and reliable "rule of law" was consistently cited as one of the most urgent and necessary development goals for Honduras: a transparent and reliable legal system was widely considered essential to ensure public security, attract investment, and stimulate economic growth. USAID Honduras was universally recognized as having played the most prominent and influential role in promoting the rule of law and working within the justice sector.

USAID programming approaches and partners. USAID Honduras's SO4 is "Strengthened Rule of Law and Respect for Human Rights." The IRs are

IR4.1 New Criminal Procedures Code Effectively Implemented

IR4.2 Independent, Apolitical, and Effective Judiciary

IR4.3 Independent, Apolitical, and Effective Public Ministry

IR4.4 Broader, More Effective Civil Society Participation in Justice Sector Reforms and Monitoring

USAID Honduras's primary partners are the Public Ministry, the Supreme Court and affiliated pilot courts, the Inter-Institutional Commission for the Transition to the New Criminal Procedures Code, *Federación de Organizaciones Privadas de Desarrollo de Honduras* (FOPRIDEH—Honduran Federation of Private Development Organizations, the local umbrella NGO), the National University, and San Pedro Sula University. USAID's major contractor in the justice sector is DPK Consulting, Inc. The U.S. Department of Justice operates an International Criminal Investigative Training Assistance Program (ICITAP) in Honduras that has been responsible for much of the prosecutorial, judicial, and law enforcement training and development assistance.

USAID Honduras's justice program has aimed at improving the administration of justice and increasing public respect for the law. USAID Honduras introduced the administration of justice as a public policy issue in Honduras, and it has promoted and sustained reform efforts over the years that eventually aroused the interest and involvement of other donors. The program in Honduras—as in the rest of Latin America—originated out of broad concerns about human and individual rights, crime, corruption, and other problems related to the transfer of political authority from military regimes to civilian democracies. Poverty was neither a focal point nor a significant factor in programming design.

In the early to mid-1990s, USAID Honduras assisted in the creation of a Public Ministry to function as an independent prosecutorial agency, similar to the office of the U.S. Attorney General. Specialized

prosecutorial divisions built into the institutional structure included special offices for the prosecution of corruption and domestic violence cases and for the protection of women's rights. The initiative even included the opening of shelters for battered women. USAID Honduras has provided continuous support and technical assistance to the Public Ministry throughout its existence, and its support has exceeded that of any other donor.

USAID Honduras also supported the creation and initial startup of a smaller public defender's office in the early 1990s as a dependency of the judiciary. Shortly after its startup, the Spanish Cooperation Agency assumed much of the responsibility for office's training and development, and USAID Honduras reduced its involvement. Recently, however, USAID Honduras has resumed promoting the office's training and professional development. Throughout this process, USAID Honduras has provided substantial training and support to prosecutors, judges, and law enforcement authorities (through ICITAP).

The centerpiece of USAID Honduras's recent justice reform program was support for the drafting, passage, and implementation of a revised criminal procedures code that incorporates guarantees of individual rights, freedom from arbitrary or lengthy detentions, oral and public hearings, transparency, and other fundamental elements of due process. The new code replaces a written inquisitorial system with a more open adversarial system, and includes provisions for alternative case dispositions such as plea bargaining, restitution, and community service. The new code also differentiates criminal offenses by degree and category of severity, and affords the *fiscales* much greater discretion in determining whether cases merit prosecution. Previously, they had little choice but to pursue prosecution of even the most minor matters, regardless of cost, practical considerations, or unfairness. Crimes were not categorized according to levels of severity, so even minor offenses could, and often would, lead to disproportionately severe punishment, e.g., lengthy sentencing or indefinite pretrial detention.

The new code was passed in 1999 but went into full effect only in February 2002 after various justice sector personnel received basic preliminary training and preparation for the dramatic change in the nature and conduct of proceedings. Much of that training and preparation was coordinated through a USAID Honduras-supported Inter-Institutional Commission for Transition, comprised of representatives of the Ministry of Justice, Supreme Court, Public Ministry, Ministry of Security, Ministry of Governance, and the Human Rights Commission. USAID Honduras's support was managed primarily by DPK Consulting and was channeled mainly through the Supreme Court and Public Ministry, with modest recent support to the public defender's office. DPK's activities have also included working with several pilot courts to improve their administration and case management and reduce case backlogs.

Another major element of USAID Honduras's justice program was the recent passage of a constitutional amendment establishing mechanisms to depoliticize the judicial branch and increase its independence from the executive. The amendment separates the appointment of Supreme Court magistrates (justices) from the regular election cycle, and it sets in place a new, more transparent process in which a representative commission (including civil society members) prepares a short list of candidates from which the Congress must make selections. The purpose of the amendment is to decrease partisanship and promote greater judicial independence. The USAID Honduras-supported FOPRIDEH helped place the reform proposal on the congressional agenda, created the "Coalition for Justice" to lobby for its passage, and generated important public pressure that led to its first success during the process of selecting the new Supreme Court in January 2002. Encountering major congressional opposition and the very real prospect that the sitting Supreme Court would refuse to enforce the new constitutional selection process, the Coalition for Justice organized a public march and demonstration demanding compliance with the law. Faced with such forceful and unequivocal pressure from civil society, Congress backed down and appointed the new Supreme Court in accordance with the new law.

Civil society participation. An important element of USAID Honduras's justice program involved stimulating and incorporating a relatively weak and docile civil society into activities promoting legal reform. Civil society advocacy for justice sector issues had been virtually nonexistent. USAID Honduras sought to create public awareness of the deficiencies of the legal system and to build NGO capacity to influence and improve the justice sector. USAID Honduras encouraged and spurred the involvement of civil society in justice issues through its counterpart, FOPRIDEH, and its affiliated Coalition for Justice. Although civil society involvement in this sector is still nascent, some civil society groups took important steps by lobbying and supporting the passage of recent procedural and constitutional reforms. The most significant stride, however, was the remarkable public demonstration that ultimately compelled adherence to the new constitutionally mandated judicial selection procedures.

Poverty focus and impact. The rule of law is increasingly identified as a primary component of democratic development and a crucial prerequisite to rapid and sustained economic growth. As such, it has risen to a priority position in the poverty reduction strategies of many donors and governments, including Honduras's. A Honduran donor community representative offered his strong opinion that judicial reform was key to poverty reform, linking the two by noting that 1) land tenure security depends upon a predictable, reliable judicial system; 2) attracting investments requires security of contract enforcement; and 3) the poor suffer disproportionately from the adverse effects of a poor justice system, including lengthy incarcerations, lack of access to adequate legal representation, corruption and impunity, and unequal rights.

A prominent Honduran academic interviewed for this assessment lamented that injustice was pervasive throughout Honduras. Citizens feared and distrusted a legal system that was corrupt, irrelevant, and characterized by the prevalence of arbitrary and lengthy detentions. He opined that poverty will be reduced by the development of justice programs that decrease impunity, reduce corruption, and free resources for social programs. Reduced corruption, institutional reform, reliable justice systems, and increased public confidence in the rule of law would stimulate foreign investment and generate benefits, including increased employment.

USAID Honduras's justice program was not designed with a poverty focus. Its underlying objectives were to promote and protect individual political and human rights within a system that had little respect for civil or constitutional rights, democracy, or justice. Under military governments, the judicial branch had become irrelevant. As democracy evolved, the judiciary's weakness became a significant impediment to democratic development. Strengthening the judicial branch became increasingly important in promoting social and political development.

Although aiding the poor was never the primary objective of USAID Honduras's rule of law efforts, the evaluation team concluded that these activities have had and will foreseeably have significant direct and indirect positive impact on the poor and vulnerable. An examination of USAID Honduras's past justice sector activities through the poverty reduction or alleviation lens highlights the following:

- *Creation of the Public Ministry and specialized prosecutorial units.* USAID Honduras's assistance to the Public Ministry from its inception was instrumental in establishing it as a competent, professional prosecutorial organization. USAID Honduras's technical assistance and training strengthened this institution and the capacity of its staff to undertake more demanding responsibilities under the new oral procedures. USAID Honduras's financial support to the Public Ministry also increased its independence by making it less financially reliant on Congress for operational funding and therefore less subject to Congress's political control. USAID Honduras's support and training also helped create several specialized prosecutorial units within the ministry, including a consumer division and an anticorruption unit. Although the specialized units have experienced various problems, they have handled many cases that increased the government's and the public's

awareness of the existence and importance of fraud and corruption, which disproportionately affect the poor. Former prosecutors in the anticorruption division reported that their efforts had caused a type of chain reaction, stimulating several "sleeping" agencies to join anticorruption efforts on behalf of the citizenry. They believed that these positive results would likely not have come about without USAID Honduras's support.

- *Protection of women's rights.* Women are overrepresented in the ranks of the poor and marginalized. USAID Honduras's assistance to the creation of the Public Ministry included a strong gender component that led to new legislation expanding women's legal protections and the creation of specialized family courts. These specialized courts reduced the incidence of paternal immunity from child support obligations and created mechanisms to secure compliance with support orders. USAID Honduras also provided technical assistance for the creation of a special prosecution unit for women within the Public Ministry, complemented by gender training and sensitization for prosecutors, police officers, judges, women's NGOs, and relevant justice sector personnel.

  Additionally, USAID Honduras financed a public information campaign concerning the new domestic violence law and encouraged women to seek help from the newly established special prosecution unit to enforce their legal rights. For a time, USAID Honduras also financed the operation of shelters for battered women. These efforts were reportedly highly successful, aiding many Honduran women. This was the first time in Honduran history that issues of violence against women were given serious attention.

- *Constitutional amendment increasing judicial independence.* Prior to the enactment of the constitutional amendment, judges were essentially treated as congressional employees. Judicial assignments changed with every administration, were largely dependent on political favoritism, and were highly susceptible to political influence. Recent constitutional reform of selection procedures and appointments has given the judicial branch much greater potential for increased independence: the tenure of Supreme Court magistrates is no longer tied to the four-year election cycle, and representatives of civil society and others now influence the selection process. This revised procedure provides no direct immediate benefit to the poor, but in the long run they will predictably—and, perhaps, disproportionately—benefit from a more independent judiciary with increased capacity and ability to assert and uphold legal rights and protections, especially those of the most vulnerable.

- *Revision of the code of criminal procedure.* The Honduran criminal justice system has suffered from inherent inequalities and power imbalances that adversely and disproportionately affect poor people. The judicial process has been riddled with corruption, inefficiency, inaccessibility, lack of accountability, and lack of transparency. The system has relied heavily on lengthy and sometimes indefinite pretrial detention—often without substantial evidentiary basis, subsequent investigation, or judicial determination of guilt or innocence. The wealthy and influential have routinely circumvented the judicial system; the law was perceived as a tool for punishing the poor, who were essentially defenseless and without legal recourse. The new criminal procedures code was intended to remedy much of the inequity and imbalance that characterized the system, to confer and protect individual rights and due process, and to open the system to the public. Although not the primary objective, the new code should ultimately benefit the poor and vulnerable, who have suffered the brunt of the system's injustice in the past. A USAID Honduras counterpart commented that "it's not going to reduce poverty, but it will give poverty some justice." Implementation of the new code is still in the early stages, and there are significant issues that must be addressed before the code's benefits can come to pass. Nonetheless,

the code's primary impact on poor populations will likely occur either during the pretrial phase or during the trial itself, as follows:

- *Pretrial detention.* The new code sets much higher standards for ordering pretrial detention of suspects and requires legal representation of defendants from the outset of proceedings. Deadlines have been shortened and, barring exceptional circumstances, criminal defendants are to be released on their own recognizance to await trial.[15] Criminal allegations must be investigated through the Public Ministry before any suspect is incarcerated. These new requirements should reduce prison populations and improve the quality of life for poor people. Criminal suspects who are working and supporting themselves and their families can continue to do so without becoming burdens on the state by being in jail, or by eliminating their ability to support their families. As a former criminal court judge commented, the new code creates "more access and less jail time."

- *Alternative case disposition.* The new code directs the release of prison inmates who are sick, pregnant, or over the age of 60 to house arrest. Since first applied in May 2001, this provision has resulted in the release of approximately 600 prisoners, almost all of whom were accused or convicted of petty crimes. Additionally, the code provides for the early resolution of many types of criminal cases by means of abbreviated procedures *(procedimientos abreviados)*, which include plea bargains, restitution agreements, and conciliation. Previously, all legal matters had to proceed through the formal system, which relied heavily on pretrial detention. Presumably, these new provisions will directly and primarily benefit the poor who would otherwise have languished in prison.

- *Oral public trials.* Criminal matters are now to be tried in a hearing open to the public with oral argument and presentation of evidence on behalf of both the state and the accused. The new process incorporates basic elements of an adversarial system and increases the legal system's transparency and openness. Oral trial proceedings are expected to decrease impunity and opportunities for corruption, and protect individual rights through guarantees of due process. In theory, these new practices will build a more credible and reliable legal system, and will benefit everyone.

In practice, however, the earliest stages of Code implementation elucidated the weaknesses in the public defender's office (see sidebar on page 29). Those interviewed by the team for this assessment concurred that the public defenders had failed to provide adequate representation to the defendant at the first trial. This revealed that the public defender's office needed attention, training, and other substantial support to prepare its attorneys to represent indigents under the new code and in trial. An adversarial system requires a balance between prosecution and defense if it is to succeed. The rich will always have good and well-trained lawyers, but the poor rely on, and are entitled to, public defenders to represent them. If indigent defendants do not have adequate counsel, their rights will not be protected, the power of the state will not be tested, the prosecution will win almost invariably, and the jails will still be filled with poor people. If left unremedied, the deficiency in the public defender's office will have a clear and substantial impact on poor and vulnerable populations—unfortunately, however, not to their benefit.

USAID Honduras's training and code implementation efforts have been directed almost entirely to prosecution, judges, and law enforcement authorities until very recently. The Spanish Cooperation Agency had supposedly undertaken to train and prepare the public defender's office years ago, but

[15] The evaluation team does not have detailed information on the applicable requirements or exceptions, but one person expressed concern that certain code provisions still appear to allow pretrial detentions for as long as two years under some circumstances.

clearly never did the job.[16] USAID Honduras's contractor recognized and became concerned about the public defender's office's lack of resources, staffing, and capacity within the last few years and redirected some training to that office, but plainly it requires a serious additional infusion of support.[17]

Municipal Development and Decentralization

Background. USAID Honduras started its municipal development project in 1991 after assisting in the 1990 passage of the Municipal Reform Law. That law changed the legal framework for local governance and granted autonomy to the nation's 298 (then 297) municipalities (the smallest government unit). The new law granted municipalities some budgetary independence, authority to tax and collect revenues, and an annual transfer of funds from the central government. Municipalities were required to host at least five open town meetings *(cabildos abiertos)* every year to allow citizens to participate in governmental decisions. The basic and smallest legally recognized unit of citizen association is the neighborhood association *(patronato)*, which constitutes the core of citizen participation under this law. The law was subsequently amended to strengthen municipalities and municipal authorities by defining municipal rights and responsibilities and by severing the election of municipal authorities from the national cycle.

When the law was first passed, Honduran municipal authorities generally had little management or administrative capacity; likewise, civil society was largely unorganized and citizens had no unified voice. Educational opportunities and training were extremely limited, especially in the smaller rural areas, and local authorities lacked even the most basic skills. Citizen relations with government were characterized by a culture of demand and dependence. The pertinent actors were for the most part ill-equipped to take on their new, unfamiliar functions and responsibilities. Without the provision of significant technical assistance and training on both sides of this equation, the application of the new law could have led simply to the decentralization of

First Public Trial Exposes Deficiencies in Public Defender's Office

The first oral public trial under the new code was held on June 6, 2002. The defendant was accused of trafficking in illegal drugs: police had discovered a bag of marijuana (weighing approximately 100 grams) in a backpack that the defendant threw over a wall as the police approached to arrest him. The defendant was 21 years old, living in extreme poverty with his mother, working as a ticket-taker on a bus, mentally handicapped, and had no prior criminal record. He was represented in trial by two public defenders who, by all accounts, performed abysmally in the courtroom and provided little substantive defense or representation. The prosecution team was much better trained and prepared, and obtained a conviction after a trial that lasted only a few hours. A sentencing hearing was held on June 14, but the sentencing panel deferred its decision because it was the defendant's twenty-second birthday. On June 20, the panel reconvened and sentenced the defendant to 15 years in prison, community service, and a fine of over $60,000. The fine was waived because of his obvious inability to make payment.

[16] The team was unable to interview any representatives from that agency.

[17] The glaring need for assistance in the provision of counsel to poor people accused of crimes is further illustrated by a national program now being initiated to identify people who have been held in jail longer than any potential jail sentence for their alleged crime, and who have no counsel of record. Those defendants will not automatically be released from prison; instead, their names will be given to the public defender's office, which will then be responsible for the extra work of initiating new proceedings for each individual defendant to petition for release. Statistics reveal that 89 percent of the current prison population has never been sentenced, tried, or convicted. Most if not all of those detainees are likely poor and entitled to services of the public defender's office. Under present circumstances, it is unclear how that office will be capable of fulfilling its crucial duties and responsibilities under the new procedural framework.

incompetence and corruption, rather than meaningful citizen participation and strengthened local government responsiveness.

USAID Honduras's programming approaches and partners. USAID Honduras's municipal development project helped with initial implementation of the new law by promoting more responsive and effective municipal government and meaningful citizen participation and contribution to local governmental decisionmaking. In the early stages, no other donors were working in this sector and, although several have joined these efforts since, none has worked as consistently or continuously as USAID Honduras. A donor representative working in the municipal development area characterized USAID Honduras as always having been "at the vanguard."

USAID Honduras's SO7 is "More Responsive and Effective Municipal Government." The IRs are

IR7.1 Strengthened Municipal Government

7.1.1 Improved Municipal Administration

7.1.2 Restored Municipal Financial Health and Increased Income

7.1.3 Sustainable Municipal Finance

IR7.2 Improved Citizen Participation in Local Government

IR7.3 Improved Coverage of Basic Services and Rehabilitation of Damaged Municipal Infrastructure

USAID Honduras's primary partners in this sector are the Municipal Development Foundation *(Fundación para el Desarrollo Municipal*—FUNDEMUN), the Honduran Association of Municipalities *(Asociación de Municipios de Honduras*—AMHON), and the Central American Technological University *(Universidad Tecnológica Centroamericana*—UNITEC). They are responsible primarily for technical assistance, training, and national policy reform support. The Honduran Social Investment Fund *(Fondo Hondureño de Inversión Social*—FHIS) is the primary partner for urban water and sanitation infrastructure investment.

The USAID Honduras project has three basic components and corresponding partners. In 1993, FUNDEMUN became the main counterpart for the secondary cities program, which currently encompasses 41 moderately developed municipalities in Honduras's central economic corridor. FUNDEMUN trains citizens how to work with government productively and to demand accountability. It also trains local government personnel how to govern and to incorporate citizen input into decisionmaking. Training citizens through the *patronato* groups has focused on understanding community rights and obligations, and has encouraged the development of concrete projects with demonstrable results. *Patronato* representatives can be expected to have a grade 6 education at best. Municipal training has focused on transparency, administrative and organizational capacity and efficiency, coverage of basic services, quality of services, and increased citizen participation.

UNITEC provided similar training and human resources development to community leaders and local authorities in the less developed 250 municipalities not included in the secondary cities program. Instruction provided included public administration and management, democracy and civil society strengthening and participation, and decentralization and autonomy. Individuals in these groups, however, are even less schooled—some of the mayors are illiterate and some have only a grade 3 education—and few have any previous management experience. UNITEC has therefore had to teach basic public administration (bookkeeping, accounting, organization, transparency, etc.) and working with people (social management).

The third element of USAID Honduras's program revived and rebuilt AMHON, the long dormant mayors' association, as the single most effective organization and key political force promoting the political interests of municipalities at the national level. Without the revived AMHON, the municipal

reform law would likely never have been implemented effectively or maintained intact without amendments that would have eroded municipal authority.

USAID Honduras's program eventually interested other donors, who initiated new programs, many of which were built off the critical foundation of local capacities created by USAID Honduras's programs. The cumulative effect has been to pave the way for future efforts. The Maduro administration has opened the door for further decentralization, which it views as a means of reducing poverty as long as municipal capacity is sufficiently strong and capable of handling the increased responsibilities. Consequently, USAID Honduras's prior work building local-level capacities has—as one donor representative phrased it—"prepared the ground for the current government's decentralization efforts to be successful."

Poverty focus and impact. From the beginning, USAID Honduras's program provided critical assistance to help build municipal capacity to govern and to interact productively with residents, and to enhance citizen awareness of and participation in municipal government. The program now includes a lobbying and policy component, as well as increased attention to decentralization and regional economic growth. Although poverty reduction was not identified specifically as a program goal, many of the benefits devolved to the poor by expanding access to basic services such as water and waste treatment and disposal.

Widening access to basic services such as water and sanitation is a clear, direct benefit to the poor. USAID Honduras's programs also instilled citizenship and gave the marginalized a voice. At the same time, they taught municipal authorities the skills to listen and to govern effectively. Training made local authorities better able to understand their duties and become better public administrators—allowing them to provide better basic services (roads, electricity, water, sanitation, etc.) to local residents. These services directly benefit the poor—the wealthy can always obtain such services by other means. Some small projects were also directed to indigenous groups and increased the participation of women as community leaders and officials.

USAID Honduras's project activities changed the relationship between civil society and government: simply the fact that there is civil society and that there is a dialogue is a huge change. Previously, citizens were accustomed to receiving unilateral directives from their governments. Now, however, essentially every significant change to local government policy takes into account the opinions of civil society through a negotiated process. This reflects a major transformation and shift in empowerment. Moreover, local governments can be more responsive to local needs and are better equipped to handle decentralization, which is widely seen as a means of reducing poverty.

Municipal strengthening and decentralization can lead to greater representation. Basic structural reform must also complement service delivery to bring about genuine poverty reduction. Representation and the building of citizenship do not necessarily lead to empowerment, but they are certainly valuable in themselves. They also hold promise for reducing poverty by increasing general improvements and by expanding the economy, which benefits everyone. A Honduran academic expounded that a good way to reduce poverty is by creating local productivity and local development projects that more realistically reflect local priorities, generate employment, and "create citizens out of poor people." This makes the poor "protagonists in their communities," more conscious of their citizenship, more active and participatory rather than resigned and passive. Local citizenship in turn creates more opportunities for the exercise of individual rights and control, and thereby the means to escape poverty. However, simply transferring money and authority to local governments without increasing the sense of local citizenship needed for citizen groups to monitor and birddog the government, will only decentralize corruption. Thus, decentralization must go hand in glove with citizen participation to fight poverty. USAID Honduras's programs appear to contain the right elements and present appropriate possibilities.

Transparency and Anticorruption Activities

Background. Corruption is rampant and ubiquitous in Honduras. In 1999, Honduras was ranked as the "most corrupt" of all Latin American countries in Transparency International's annual corruption perception index. By 2001, Honduras had improved somewhat, moving ahead of Bolivia, Ecuador, and Nicaragua (in that order) to rank as the fourth most corrupt country in Latin America (Transparency International 2001). Honduras's displacement from the bottom rung of this ladder is no cause for great celebration; its current position likewise reflects deep-seated systemic problems that pervade all levels of everyday life and carry enormous social costs. Corruption diverts resources from social programs and public works; increases the costs of everyday transactions; undermines credibility, control, and confidence in public institutions and systems; and discourages investment. These consequences disproportionately affect the poor and most vulnerable populations.

Hondurans have long placidly accepted unchecked corruption, which is largely outside the control of governmental agencies and entities. The amount of public monies misused and the complete impunity and fatalism about the issue is, as one person commented, beyond estimation or comprehension. Although the legal system has managed to convict at least one person for misuse of public funds, the evaluation team was informed that no one had ever gone to jail for this crime. To date, civil society has not manifested any serious organized demands for transparency or accountability in the use of public resources.

In the aftermath of Hurricane Mitch, the international donor community worked diligently to build adequate anticorruption mechanisms into the Honduran reconstruction efforts to ensure that donor monies would not be misdirected. Transparency and the reduction of corruption were a central focus of the discussions held in Stockholm in May 1999. The Group of 15 created a Transparency and Governance Table to address issues of government accountability, transparency, and corruption as one of the *mesas sectoriales* in the reconstruction and transformation planning efforts. Consequently, anticorruption issues achieved and maintained a high profile on the agendas of the international donor community and the Honduran Government. Corruption, transparency, and accountability were explicitly incorporated into the PRSP, as well as the PMRTN. A National Anticorruption Council, with civil society participation, was created in 2001. Chaired by the Cardinal Archbishop of Tegucigalpa, it has produced a National Anticorruption Strategy but has not yet had a major impact on behavior. Implementation of a program of efficiency and transparency in government procurement and contracting, funded by the Inter-American Development Bank (IDB), is now under way—after some delays—following passage of a government contracting law in 2001. The climate of acceptance thus appears to be changing, and daily newspapers are now routinely and regularly reporting on matters involving corruption.

USAID Honduras programming approaches and partners. USAID Honduras has supported specific activities focusing on combating corruption and strengthening accountability and transparency mechanisms in Honduras. These activities began in May 2000 and were classified as a transparency activities under the Hurricane Reconstruction Project. The scope soon broadened to include the PRSP process and became cross-sectoral. Although not currently categorized as a democracy and governance program, the evaluation team was informed that these activities are soon to be incorporated into that sector.

The anticorruption activities began when USAID Honduras joined with other donors to establish an independent donor oversight mechanism *(Inspectoría de Proyectos)* to oversee the operation of governmental agencies and protect funds in the implementation of the reconstruction program. USAID Honduras also designed an activity to strengthen the capacity of the Controller General of the Republic (CGR) and to promote increased citizen awareness of the importance of audits and accountability in general. In September 2000, Casals & Associates was contracted to manage this

activity, including formal training, oversight, and supervision. USAID's Regional Inspector General (RIG) opened a separate office in Honduras because of the large project portfolio and concern over misuse of reconstruction funds; the RIG subsequently certified the CGR to perform audits for U.S.-funded programs. As part of this activity, the CGR created a website that, for the first time in Honduras, gave citizens access to governmental audit reports. That project, although nearing completion, highlighted the greater overall need to develop a culture of transparency and increased citizen participation, especially in demanding accountability for the use of public resources.

As a follow-on activity, USAID Honduras began a public awareness campaign focusing on anticorruption in December 2000. This project included public opinion surveys and efforts to mobilize a lackadaisical civil society to push for access to information and demand accountability and transparency from government. In that regard, and for the first time in Honduran history, the project succeeded in obtaining copies of and disseminating the national budget. In addition, USAID Honduras funded a public information campaign designed to increase citizen awareness of the importance of vigilance in the Honduran Government's administration of public resources, knowledge about the types of problems to watch for, and instructions about what to do if and when corruption is identified. The anticorruption campaign's objectives included the promotion of a democratic culture of citizen participation in public issues as a necessary component of democratic processes and good governance. Casals & Associates provided technical assistance and support to the CGR, and also hired the Honduran NGO Center for the Investigation and Promotion of Human Rights *(Centro de Investigación y Promoción de los Derechos Humanos*—CIPRODEH) to conduct the public awareness campaign.

USAID Honduras also made significant contributions to an anticorruption focus in the PRSP through its participation in the relevant *mesa sectorial,* which ultimately led to incorporating an indicator matrix on accountability and transparency into the PRSP. The matrix addresses activities necessary to ensure improved public administration, institutional and electoral reforms, government accountability and internal controls, immunity and anticorruption legislation, freedom of information, and a restructured armed forces accountable to the citizenry. USAID Honduras has also provided technical assistance to the National Anticorruption Council in developing its national anticorruption strategy and action plan.

Poverty focus and impact. Transparency and accountability are key to improving the lives of the poor. Citizens lack confidence in and control over a system that routinely allows huge amounts of money to be misdirected without oversight or fear of sanctions. The poor are unable to afford the increased transaction costs imposed by a corrupt system, and are deprived of necessary social programs and public works. Tax evasion has become so routine and endemic that tax revenues have fallen short of minimal requirements to provide essential social services and meet the goals of the PRSP while maintaining macroeconomic stability.

USAID Honduras's activities have benefited the poor foremost by ensuring that the hurricane reconstruction monies were directed appropriately to their intended beneficiaries and funds were used to promote development rather than line individual pockets. Moreover, the CGR is now a much stronger office and better able to safeguard limited public resources. Strengthening the CGR was a crucial first step in eliminating corruption and deterring fraud and waste in meeting basic citizen needs. Providing verifiable information to citizens on how public funds are budgeted and spent is a further important aspect of accountability and transparency, and USAID Honduras's activity made important contributions to the first-time publication of governmental financial documents.

USAID Honduras's activities also contributed significantly to focusing public awareness and attention on corruption and fostering civil society demands for transparency and accountability. USAID Honduras played a leading role in encouraging other international donors to increase emphasis on anticorruption measures. The reconstruction

process propelled this issue to the forefront and facilitated a climate of openness permitting greater oversight and monitoring of governmental activities. The Hurricane Mitch disaster opened the door to a frank discussion of corruption that was not appropriate or permissible in years past. Inclusion of the transparency and accountability matrix in the PRSP enlarged the anticorruption scope, and inserted anticorruption issues into all levels of governmental action and investigation. The issues became integrated into national strategies as overarching objectives and further provided a common theme around which the international community coalesced. Thus, disaster was transformed into a long-term development opportunity.

Increasing citizen empowerment through public awareness and access to information are key to eliminating the corruption that contributes to poverty. USAID Honduras's activities in this regard contributed importantly to publicizing the issues, informing key actors and national strategies, and urging reform.

Hurricane Reconstruction Program

Hurricane Mitch, which devastated Honduras in October 1998, caused an estimated economic loss of $3.8 billion. In 1999, the U.S. Congress allocated $293 million in emergency supplemental funds to support reconstruction programs. The funds supported many activities strongly oriented toward poor families adversely affected by the disaster. Almost two-thirds of the funds provided critical social and economic infrastructure (Table 6). The mission's 2001 strategy document explicitly stated that the hurricane reconstruction program "… underscored the importance of economic growth as a critical factor [to] reconstruction and to long-term poverty reduction in Honduras" (USAID Honduras 2001).

Of special note was the establishment of an audit facility in the Honduran Controller General's office for the entire USAID-funded reconstruction effort, and support for a follow-on program mobilizing civil society to push for access to information and to demand accountability and transparency from the government. To that end, civil society organizations were able to publicly disseminate the national budget for the first time, and the results of reconstruction program audits were published on the internet. Access to information is necessary to make demands, or even to create awareness of rights, such as basic rights to public services. Transparency and accountability are key to improving the lives of the poor. The USAID Honduras project contributed importantly to creating a foundation of public awareness and civil society involvement.

Targeting, Monitoring, and Measurement Issues

Many USAID Honduras activities—such as the P.L. 480 Title II food program and EDUCATODOS—are well targeted to poor populations. Other activities, including policy reform, improvements in the institutional environment, family planning, and AIDS prevention, are focused on the population as a whole. This indirect approach to poverty reduction is especially characteristic of the democracy and governance portfolio.

While many reform measures may benefit the poor, at least proportionally to the general population, economic and social reform measures can sometimes have negative effects on some groups of poor families, or benefit them less than proportionally. In an ideal world with good data and adequate staffing and resources, USAID Honduras would be able to track such differential effects. In practice, such tracking is rarely feasible. Still, by being aware of experiences in other countries where quantitative evidence is available, the mission can at least be alert to the possibility that reform measures may not always have the desired positive effects on poor populations and be prepared to take corrective measures in cases where qualitative evidence suggests the desirability of reorienting programs more toward the poor.

The R4 framework does not track the incidence of income-based poverty, or any other comprehensive indicator of poverty such as unsatisfied basic needs or the UNDP's Human Development Index (HDI). For activities in the economic growth, agri-

Table 6. Hurricane Reconstruction Program Obligations, 1999
(thousand dollars)

	Obligation	Percent of Total
Infrastructure		
Rural and urban water and sanitation	92,378	
Road and bridge construction	49,890	
River basin and watershed improvement	16,513	
Municipal construction	15,161	
School and vocational center construction	7,850	
Subtotal—Infrastructure	*181,792*	*62*
Other		
Agricultural credit, technology transfer, and policy reform	47,193	
Emergency housing construction	19,173	
Vocational (alternative basic) education	11,324	
Support to PVOs (technical assistance and services)	14,622	
Microenterprise lending	10,000	
Subtotal—Other	*102,312*	*35*
Transparency and accountability (concurrent audit)	8,294	3
Total	**292,398**	**100**

Source: USAID Strategy and Support Office

culture, and trade area (most of which are encompassed by the mission's current SO1, Economic Reactivation Meeting the Needs of the Poor), the indicators in the R4 framework monitor factors related to the enabling environment for poverty reduction: value of private investment, percentage of micro- and small enterprises receiving financial services from USAID-assisted institutions, and delinquency rates on loans from USAID-supported institutions serving micro- and small enterprises. The relationship between these indicators and poverty reduction is very indirect, and the indicators cannot reveal much about year-to-year changes in any aspect of poverty. Still, the latter two indicators—the number of persons benefiting from microfinance and their capacity to repay loans—provide indirect evidence of a poverty reduction impact.

The mission's SO2 (Improved Management of Watersheds, Forests, and Protected Areas) activities probably benefit the poor more than proportionally because poor families are more likely to live in areas environmentally threatened and highly vulnerable to natural disasters. The R4 document, however, does not make clear the extent to which SO2 activities are targeted to poor communities, and neither of the SO2 indicators measures any aspect of poverty. However, mission staff point out that well implemented programs in these areas should create many jobs for the poor as well as protect their land and other assets.

SO3 (Sustainable Improvements in Family Health) is targeted to poor populations because it seeks to extend health services and family planning outreach to underserved and unserved geographic areas. It also seeks to improve the health dimension of well-being indirectly through sectoral policy reform. Of the five indicators under this SO, four directly measure some aspect of health status and thus can be considered as poverty-related indicators.

The mission's SO4 (Strengthened Rule of Law and Respect for Human Rights) portfolio is centered on sectoral reforms. Activities are presumed to disproportionally benefit the poor because they, unlike those with discretionary income, lack the resources to manipulate a system that currently "is plagued by high levels of corruption and low ethical standards" (USAID Honduras 2001, 33). However, the R4 does not specifically provide for direct assistance to the poor—such as support for public defenders—and none of the five indicators focuses on any aspect of poverty and most are concerned with the efficiency of judicial processes.[18]

SO5 (Critical Hurricane Reconstruction Needs Met) is a special objective focused on use of the $293 million in supplemental funds. The funds support many activities, including microenterprise reactivation, construction and reconstruction of water and sanitation systems, various public health measures, housing (transitional shelters and new, permanent construction), school construction and reconstruction, adult education, vocational training, environmental protection, disaster mitigation, municipal development, and Honduran Government accountability and transparency. Many activities are strongly oriented toward poor families adversely affected by Hurricane Mitch. These activities include both poverty alleviation and poverty reduction measures, in proportions that are difficult to determine without a detailed knowledge of the programs. The R4 does not provide indicators for this special SO.

SO6 (Improved Opportunity to Obtain Basic Education and Vocational Skills) focuses on educational policy reform, alternative delivery systems for basic education, and vocational education. Several reform objectives—notably the expansion and improvement of preschool education, vocational education for disadvantaged youth, and secondary education—are well focused on the poor. This is the case also for EDUCATODOS, the alternative basic education program for youth and adults, and to a certain extent for the mission's support of vocational education centers. The three performance indicators for this SO do not distinguish poor from nonpoor beneficiaries.

SO7 (More Responsive and Effective Municipal Government) activities include training of mayors, council members, and community leaders; promoting decentralization of government services; strengthening citizen participation in local government; and improving coverage of basic services. Of the six performance indicators, two dealing with coverage of public services (water, sewerage, and refuse collection) can be considered as poverty indicators because the measures focus primarily on the construction of new systems or provision of services in poor neighborhoods that previously had no such basic services.

USAID Honduras participates in the donor community's monitoring of poverty indicators through the sectoral working groups under the Group of 15 framework. It is too early to tell how effective this monitoring will be, especially since the role of the working groups under the new government is not yet clear. It should be noted, however, that USAID Honduras had a significant input in the development of poverty indicators during the preparation of the PRSP.

Vulnerability

USAID Honduras's program has very strong elements focused directly on the vulnerability of the poorest households. For example, the mission spent about $32.2 million over the last five years (about one fifth of its annual program) on P.L. 480 Title II food assistance and microenterprise programs that target the very poor.

By the end of 2001, the USAID Honduras

[18] Indicator 4.3b (Increased Number of Public Ministry Cases Successfully Adjudicated by the Court) tracks the total number of criminal cases prosecuted and brought to final resolution within the period measured, which presumably is linked to increased efficiency in court administration and case management. Although the indicator target was already exceeded by the end of the third quarter of 2000, the comments note that overall court adjudications were down, and "all categories of prosecutions show decreases, *except for women and minorities, which increased* from 239 to 600 (Jan–Sept 2000)" (emphasis added). If true, this result would certainly show an impact—albeit adverse—on poor populations. The team suspects, however, that the statement is somehow incorrect. Perhaps instead it means to state that categories of prosecutions on behalf of women and minorities experienced this dramatic upsurge. Regardless—and despite the fact that the indicator language was to be revised the following year—this point should be either clarified or investigated to determine whether it signals an adverse impact on poor people that needs to be addressed.

microenterprise program loan portfolio of $32 million reached 100,693 clients, of whom 79 percent were women. The delinquency rate for loans at risk for more than 30 days is 8.1 percent. USAID Honduras is by far the largest donor in this sector, providing substantial additional assistance to microfinance institutions in credit and organizational management and training. The mission is unable to determine whether the microenterprise portfolio meets the USAID Washington requirement that 50 percent of microenterprise credits go to the poorest. However, the *Fundación José Mª Covelo*—COVELO (José María Covelo Foundation), USAID Honduras's largest cooperator, reports that 18 percent of its loans are for less than $100.

For most small borrowers, microfinance can be characterized as maintenance lending that permits beneficiaries to do little more than sustain a given level of annual income. Their personal characteristics and circumstances make it difficult for them to use loans to improve their earning prospects. Microlending to these borrowers is best characterized as a poverty alleviation program. A minority of small borrowers, on the other hand, has the necessary personal characteristics and a sufficiently favorable enabling environment to use loans to steadily grow their businesses and improve their standard of living. Lending to these true microentrepreneurs constitutes a poverty reduction approach that differs from poverty alleviation assistance.

The P.L. Title II program reaches more than 11,000 households—nearly 60,000 individuals—constituting about 10 percent of the total population in the three western departments (Lempira, La Paz, and Intibucá) with the severest poverty in the country. One activity distributes food to families with expectant mothers and mothers with children under age 2. The program also works with three local NGOs in activities, financed by monetized food aid, that should lead to sustainable poverty reduction. The first component of this latter activity works with the *Proyecto de Extensión para la Seguridad Alimentaria*—EXTENSA (Food Security Extension Project) that has 2,688 volunteer extension workers helping small farmers increase agricultural diversity and production to improve nutrition and generate income. The second component provides community-based health services emphasizing preventive health and better nutrition. A third component (PODER) works with local rural governments in developing and launching plans and in providing microcredit to farmers for seeds and other inputs, as well as improvements in rural community infrastructure. The food distribution system already in place can respond quickly to natural disasters, and the ongoing poverty reduction efforts will help diminish vulnerability and reduce the need for food assistance over the long term.

Role of Government

USAID's portfolio in Honduras is relatively well balanced among activities channeled through national government entities, municipal governments, NGOs, and the private sector. Allocations for NGO activities in some sectors might be considered low, but this situation likely reflects the absence of a well developed, active, and organized civil society.

Table 7. Microenterprise Loans in Honduras, 2001
(thousand dollars)

Issuing Entity	Amount
USAID-supported (18 NGOs)	32,000
EU-FINSA, National Fund for Production and Housing (FONAPROVI)	12,500
Central American Bank of Economic Integration (CABEI), Taiwan, Spain	3,800
Government of Honduras, International Fund for Agricultural Development	–
Total	**48, 200**

Source: USAID Strategy and Support Office

USAID Honduras assistance to Honduran Government institutions for economic policy, planning, and strategy formulation has included

- technical assistance to UNAT, including consulting services for the preparation of a long-term plan for 1998–2005, the PMRTN, and the PRSP
- technical assistance to the central bank in monetary and exchange rate policy and in the revision and updating of Honduras's consumer price index and national income accounts
- assistance to the Ministry of Industry and Commerce to build trade policy capacity

Assistance to UNAT and the central bank produced significant results; however, work with the Ministry of Industry and Commerce was curtailed because of that entity's institutional weaknesses. Even less successful were USAID Honduras's efforts to work with the *Corporación Hondureña de Desarrollo Forestal*—COHDEFOR (Honduran Forestry Development Corporation); because of corruption, USAID Honduras severed relations in 1999.

Health, population, nutrition, and education activities include working with the government on program design, policy suggestions, decentralization, and improved service delivery design. The health policy program worked with the Ministry of Health and with UNAT, especially in the development and refinement of the PRSP. Approximately ten percent of health budget is devoted to policy initiatives; about five percent directly supports the policy reform project.

A significant portion of USAID Honduras's justice program is allocated to projects implemented by Honduran Government entities with which USAID Honduras has enjoyed a largely positive and constructive working relationship over a number of years. Honduran NGOs, such as FOPRIDEH, and universities conducting exchange and educational programs received a lower proportion. Nevertheless, USAID Honduras's recent approach and strategy are notable for increasing cultivation of partnerships with civil society organizations. USAID Honduras has fostered relations with NGOs that had not previously appreciated their potential influence in the justice sector, or had not realized the utility of engaging the law in innovative and creative ways to advance specific causes.

In the area of municipal development and decentralization, USAID Honduras has worked successfully with local municipalities and related entities throughout Honduras since about 1990. Much of USAID Honduras's portfolio is channeled through private organizations to lobby, train, or otherwise work directly with local governments. A significant proportion is directed to training and working with grassroots organizations. The activities have helped local governments work constructively with community organizations and have helped municipalities become more transparent, accountable, and responsive to citizen needs, especially in connection with the provision of basic services.

USAID Honduras's transparency and anticorruption activities, undertaken or under way, have been targeted primarily at strengthening the Honduran Controller General's Office. This, too, has been a positive working relationship.

Environment

Under USAID Honduras's sustainable development focus, environmental sustainability has emphasized global environmental concerns, biodiversity, and sustainable urbanization, energy use, and local resource management. The emerging poverty reduction paradigm, however, seeks to integrate environmental concerns with sustainable livelihood strategies for the poor. Donors that have adopted this focus differ significantly in their emphasis on environmental sustainability (Salinger and Stryker 2001, Annex 1).

Environmental activities in USAID Honduras's recent programming and strategy documents focus exclusively on sustainable development. Neither the 2001 R4 document nor the proposed strategy for FY2004–08 (USAID Honduras 2001 and USAID Honduras 2002, respectively), for example, explicitly link environmental activities to the livelihood of

poor households. An implicit linkage, however, is made through mention of job creation.

Indirect vs. Direct Approaches

The distinction between indirect and direct approaches to combating poverty was defined by Jagdish Bhagwati (1988, 539) as follows:

> i) the indirect approach … use[s] … resources to accelerate growth and thereby impact on the incomes and hence the living standards of the poor; … ii) the direct route … [involves] the public provision of minimum needs-oriented education, housing, nutritional supplements and health and transfers to finance private expenditures on these and other components of the living standards of the poor.

This distinction is similar to that between poverty reduction and poverty alleviation. In both cases, the dividing line between the two concepts may be blurry: direct expenditures on education, for example, are at least in part investments in human capital that indirectly accelerate economic growth. And indirect growth-promoting investments in rural roads are direct benefits to farmers living along the route.

Honduras recognizes the need for direct and indirect approaches to combating poverty, but the PRSP clearly states that priority should be given to poverty reduction over poverty alleviation (Honduras 2001, 55–56). USAID Honduras's strategy and programming document also gives priority to poverty reduction measures that stimulate long-run economic growth. Nevertheless, the largest share of USAID Honduras's (non-Mitch) resources in recent years has been designated for health programs. Interestingly, several officials of one Honduran Government entity told the evaluation team that USAID Honduras's indirect programs have had more of an impact than its direct programs.

Health

In the area of health policy, all stakeholders concur that the Ministry of Health is in disarray. Budgeting is based almost solely on historical budget levels, adjusted by reported patient load each year at the primary, secondary, and tertiary levels. User fees are regressive, and doctors' salaries are outrageously higher than those of all other ministry health professionals. As a result, personnel costs have grown from 38 percent of the total ministry budget in 1996 to 61 percent in 2000, and they continue to grow incrementally as a result of a 1997 law guaranteeing steep annual increases. The Honduran Government has subscribed to the need for a more rational system that includes higher user fees and needs-based budgeting, but each year it continues to budget on the basis of historical allocations. The ministry budget is largely spent at the central level, in spite of lip service for decentralization to the municipal level.

USAID Honduras's health policy project has developed indicators and targets for the PRSP. It has also focused attention on developing the statistical basis for rationalizing the user-fee and budget formulation systems. In addition, it has completed a national health accounts study that clearly shows how ministry revenues and resources are expended, as well as a similar study of AIDS. A USAID Honduras Ministry of Health activity is preparing guidelines and standards for care.

Other policy areas that could be addressed include the crippling annual salary increases and the inadequate attention to preventive medicine (only 5 percent of expenditures). Greater attention to prevention could significantly lower demand for services provided by more expensive secondary and tertiary clinics and hospitals. Decentralization and more reliance on the private sector would allow the Ministry of Health to focus more on setting policy and developing regulations, monitoring the health system with better data, and providing guidance and technical assistance, while maintaining a safety net for the poorest Hondurans.

One health policy professional estimated that up to 20 percent of the health portfolio could be devoted to the health policy area, but most agreed that an increase in political will would be necessary to make such an investment worthwhile.

Education

The EDUCATODOS program has filled an important void in the Honduran educational system. Possibly more importantly, it has acted as a highly successful demonstration project that has given more credibility to innovative educational alternatives, such as interactive radio mathematics instruction. However, USAID Honduras will gradually phase out funding for the operational costs of this activity in favor of support for reforms, such as the development of new curricula based on revised educational standards. International financial institutions and the Ministry of Education are expected to finance service delivery costs as part of the HIPC initiative so that USAID Honduras's resources can be used for critical policy and quality-of-teaching issues. USAID Washington states that insufficient funds are available to pay for infrastructure or actual teaching, and calls instead for a focus on quality.

Economic Growth

In 1994, the mission's economic growth program aimed to provide technical assistance to help the government understand the importance of macroeconomic policy reform and structural adjustment, and show how policy reform could improve country economic performance and thus reduce poverty. USAID Honduras support responded to a perceived reduction in technical assistance originally provided as part of the conditionality requirements of IMF and World Bank loans.

The program supported a policy analysis unit in the government, carried out studies, and provided technical advice across a broad range of important topics: monetary, exchange rate, and fiscal policy; labor market policy; trade policy; and establishing an outward-oriented investment climate. Other policy areas tackled by the program included financial market regulation, investment incentives, national income accounts, agriculture (land titling), mining, tourism, and light manufacturing. The program also assisted the development of the hurricane reconstruction plan and the PRSP. Government of Honduras officials praised its high quality and timely advice.

Nonetheless, policy and institutional reforms are incomplete in key areas. The appreciation of the real effective exchange rate needs to be halted to avoid further adverse effects on exports. Financial sector reforms needed to increase competitiveness include strengthening bank supervision and prudential regulation, reducing inefficiencies in bank operations, improving the investment climate for foreign banks, and promoting bank mergers. Despite significant progress in reducing tariffs, there is considerable scope for lowering trade barriers and eliminating discretionary actions, such as embargoes on basic grains exports and nontariff import obstacles. Reform of restrictive laws and regulations limiting part-time work and dismissal of workers would encourage more investment.

Other key reform areas for accelerating economic growth, and therefore poverty reduction, include reduction of the fiscal deficit, modernization of the state, reform of social security, continued privatization, and a long-term strategy for the maquila sector. These issues are discussed in greater detail in the next section.

The Uncompleted Policy and Institutional Reform Agenda

Despite the improvements in the economic policy environment since 1990, Honduras has a long list of uncompleted policy and institutional reforms. Action in these areas is essential for accelerating long-term economic growth and, therefore, poverty reduction. The major actions needed include the following:

- *Reduction of the fiscal deficit.* On the expenditure side of the budget, the greatest need is for a sound public sector salary policy that will slow the unsustainable rates of increase of the last five years, particularly for teachers and medical professionals. Improved tax administration and a reduction in the number of exemptions are the most promising ways to increase revenues. But as anticipated progress in regional integration further reduces import tariffs, the government will also need to consider increasing some existing tax rates.

- *Reform of the financial sector.* The effects of Hurricane Mitch on banks' portfolios (particularly those of banks lending heavily to the agricultural sector), and the recent failure of several banks and other financial institutions, highlight the importance of strengthening bank supervision and prudential regulation, including more timely and strict enforcement of minimum capital requirements and tight restrictions on lending. Although Honduras has 21 commercial banks, the banking industry does not exhibit strong competitive behavior. Inefficiencies in bank operations, some related to the small size of many banks, further contribute to high spreads between lending and deposit rates. Improving the investment climate for foreign banks, and promoting bank mergers, should help improve the overall efficiency of the banking industry and lower real interest rates.

- *Social security reform.* Honduras's various public pension schemes are either technically bankrupt or moving in that direction. Recent efforts to separate and strengthen the pension and health components of the Honduran Social Security Institute (IHSS) should be accelerated. Legalization and proper supervision of private pension schemes would promote more savings and strengthen the country's weak capital markets.

- *Exchange rate policy.* The significant appreciation of the real effective exchange rate since the mid-1990s—due in part to increased remittances from Hondurans living abroad and to the rapid growth of *maquila* exports—is a concern, as the strengthening of the *lempira* tends to adversely affect exports. Nevertheless, many nontraditional exports (including apparel from the *maquila* sector) have continued to grow rapidly, suggesting that Honduras started the process of appreciation with an undervalued currency, thus giving it a cushion that would permit some appreciation without major effects on exports. Also, real appreciation—which seems to have been at least in part a deliberate central bank policy—has been an effective tool for reducing the rate of inflation. In any event, the rate of appreciation has declined in the last few years, so the problem may be diminishing in importance. Eventually, when Honduras achieves greater macroeconomic stability, it may wish to move to a freer float of the *lempira* or adopt some form of fixed exchange rate (with dollarization being one possibility). For the medium term, however, the case is strong—as even the IMF seems to have recognized—for maintaining the existing exchange rate regime, but permitting only minimal additional appreciation.

- *Reducing trade barriers.* Despite significant progress in reducing tariffs since 1990, Honduras has scope for further lowering trade barriers, in the context of both deeper Central American integration and movement toward the proposed Free Trade Area of the Americas. In addition to further reducing tariffs, Honduras—and in particular many of its poor families—would benefit from resisting the frequent temptations to prohibit basic grains exports to neighboring countries and to impose various nontariff obstacles to imports.

- *Privatization.* Honduras's public enterprises are inefficient and the government fiscal problem severely limits needed investments in infrastructure, especially electric power, telecommunications, and ports. The fiscal situation severely limits public funds available for investment; HIPC rules prevent the government from borrowing in commercial markets; and international agencies are unlikely to make concessional loans for these investments. Honduras's long-term economic growth prospects will be constrained without an expansion of infrastructure and an improvement in its efficiency to lower transaction costs for those producing for both domestic and export markets.

- *Labor market reforms.* The smooth functioning of the Honduran labor market is hindered by restrictive laws and regulations, including those limiting part-time work and making it difficult and costly to dismiss workers. These restrictions discourage firms from hiring additional

workers on a permanent basis and keep some production in the so-called informal sector, where firms seek to evade labor laws and tax payments. Greater labor market flexibility would result in a better allocation of human resources and encourage more investment, although the potential benefits of such reforms are probably more modest than some of their proponents expect.

- *Modernization of the state.* The World Bank and Inter-American Development Bank have been supporting reforms in this area for a number of years, but progress has been slow. Government ministries and agencies remain generally overstaffed, inefficient, and lacking in managerial, administrative, and technical skills. Cumbersome administrative procedures add to firms' transaction costs. A reduction in the number of public sector employees, combined with a decompression of the salary scale to attract and retain more qualified professionals, would improve the efficiency of government operations and the quality of public services.

- *Legal and judicial reforms.* Investment in Honduras is limited by a weak and unreliable justice system, a deficient land registry and titling system, corrupt practices in the judicial system, and a sense that the government is unable to deal effectively with the rising incidence of crimes against persons and property. Honduras is making progress in these areas, but the pace of reform is slow.

- *A long-term strategy for the* maquila *sector.* The rapid growth of the *maquila* sector since 1990 has been based almost exclusively on the employment of low-skilled labor in the apparel industry. This expansion has been positive for Honduras so far. However, *maquila* production will have to focus increasingly on products requiring higher level skills if real incomes in this sector are to rise significantly. Honduras would also benefit by adopting—through a collaborative effort of the public and private sectors—a long-term strategy to transform the *maquila* sector into a true manufacturing sector that makes greater use of skilled labor and locally produced raw materials and other inputs.

Democratic Governance

Activities in the justice sector have had an almost exclusively indirect impact on the poor by promoting long-term policies, laws, and practices that are intended to create a stronger legal and judicial environment through increased modernization, judicial independence, and legal reforms. These reforms should shore up the legal institutions necessary to attract investment and develop markets. Better justice systems and institutions will predictably confer a greater ultimate benefit on the poor, who are primarily harmed by a system that powerful elites can manipulate to their advantage. Here, the mission has done a lot of good long-term work on broad systemic reforms, such as judicial independence and procedural changes to incorporate public oral trial proceedings in criminal cases. It will take a long time for this work to bear significant fruit, but this approach is preferable to simply counting files for faster processing and case resolution without regard to quality of disposition. Another indirect poverty reduction measure is USAID Honduras's support to the judiciary and judicial institutions aimed at shoring up legal institutions necessary to attract investment and develop markets.

Some direct benefits to the poor were provided in the early stages of the creation of a public defender's office, although USAID support was not maintained thereafter (assistance and training has recently resumed at modest levels). Other early activities providing direct benefits included support for a specialized women's unit at the public prosecutor's office *(fiscalía)*, public information campaigns encouraging women to seek assistance under the new domestic violence legislation, gender sensitization and training of justice sector personnel, and support for battered women's shelters. On the whole, however, the portfolio has been weighted in favor of indirect benefits, and appears to have become more so over time.

The municipal development and decentralization portfolio includes direct aid for training and build-

ing the capacity of grassroots groups to contribute to local government decisionmaking. The expanded provision of basic community services in many municipalities has been one of the results of this program. USAID Honduras's programming linking community development activities to local governments also generates indirect benefits.

Transparency and anticorruption activities rely exclusively on indirect approaches to reduce poverty.

Balance between Direct and Indirect Approaches

Why should USAID Honduras be concerned with policy issues? USAID is the largest bilateral donor in Honduras and plays a leading role in donor coordination. Yet USAID Honduras's allocation of portfolio monies to economic growth and policy reform has been proportionately less every year.

Recent studies show that policy and institutional reform is probably the most important means for achieving economic growth and reducing poverty. Unlike other donors, USAID Honduras has maintained its strategic emphasis on broad-based sustainable growth rather than adopting the narrower goal of poverty reduction. It is most appropriate that USAID Honduras pay more attention to the issues of policy, legal, and institutional reform. Thus, one could say that USAID Honduras's development strategy niche is a concern with the enabling environment for poverty reduction and economic growth rather than poverty reduction per se.

Some believe that the political will for policy reform is weak in Honduras and that no one reads the policy papers produced under USAID's policy reform project. However, the World Bank's study *Assessing Aid: What Works, What Doesn't, and Why* (1998) recommends that donors in countries with poor policies should concentrate on activities that support long-term reform, such as overseas scholarships, dissemination of ideas about policy reform and development, and stimulation of debate in civil society. USAID Honduras's now discontinued participant training program produced positive results. USAID Honduras's more recent efforts to strengthen civil society's ability to exert pressure to promote government transparency should also have a high payoff. In summary, the case for significant support for policy reform efforts is strong.

The Results Reporting Process

Contributing to USAID's unwillingness to devote more funding for policy reform is the reporting requirement under the "management for results" system adopted by the Agency in 1996. Under this system, USAID project managers and program officers are under considerable pressure to provide quantifiable measurements of results from project and program activities on a six-month or yearly basis. As one senior economic growth officer stated:

> I can't give you results in one year. USAID is not geared for policy reforms. How can USAID balance long-term work with policy reform with our short-term preoccupation with getting results every six months? What can I do when half of our economic growth money is earmarked for microenterprise, in a country facing so many institutional problems and a poor environment for economic growth?

Another officer said: "It's easier to measure numbers of microenterprise loans to poor people. What do we get out of policy reform? Over the short term, papers and discussions and not much else. As indicators, these don't look good in the R4."

In commenting on the difficulties of working in policy reform, one USAID Honduras contractor said:

> In order to maintain political momentum of a policy project in USAID, you have to have accomplished a central objective or a major achievement, like "we destroyed the high government-wage regulations (that lead to overpaid doctors, e.g.)" or "we drove down interest rates." Otherwise, you end up with 20 different things that you have done, like seminars on this and policy papers on that; but all of them don't add up to much in the current results-reporting scheme.

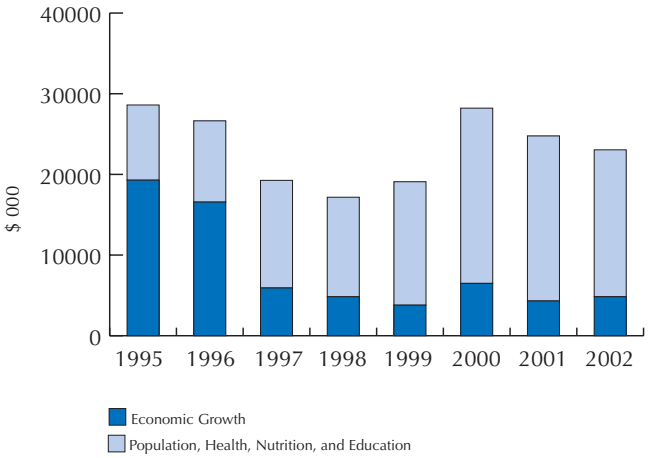
The Issue of Earmarks

Within the health, population, and nutrition sector, earmarking and the rules governing the use of funds within the earmark have caused some concern. First, the mission was advised that in FY2003, population and child survival funds were to be reduced to accommodate increased HIV/AIDS resources. The mission had requested $6.0 million for population and $9.5 million for child survival programs but these amounts were reduced to $5.0 million and $3.1 million, respectively. The USAID Washington allocation for HIV/AIDS rose from $2.5 million in FY2001 to $3.5 million in FY2002, and then to $4.9 million in FY2003 under the new "Intensive Focus" designation. Mission staff are concerned that Honduras lacks absorptive capacity in light of the $40.4 million (over five years) recently allocated to Honduras by the Global AIDS Fund. Another mission concern is that sufficient population and child survival funding might not be available to meet growing contraceptive demand and maintain support for strong programs, such as the private sector ASHONPLAFA and child survival activities. AID Washington has promised to "plus up" the population and child survival accounts in FY2003 to the levels originally allocated.

In the area of Food for Peace, mission health, population, and nutrition staff believe that current budget levels are adequate, but the staff are somewhat stymied by USAID Washington guidelines that call for reducing the amount of commodities that can be monetized. Such a reduction would force cutbacks in highly integrated programs in the poorest rural areas that are well designed for long-term poverty reduction, rather than short-term hunger alleviation.

Despite survey data that show girls' education to be one of the strongest determinants of fertility reduction and reduced infant and maternal mortality—as well as increased earning capability. Insufficient funds are available for programs that would increase enrollments and lower repetition and dropout rates. The mission's education portfolio, which is aimed at out-of-school youth and illiterate adults among the poorest, is clearly aimed at a pro-

Figure 1. USAID Honduras-Requested Program Levels: Economic Growth and Population, Health, Nutrition, and Education



poor target group, and in fact it benefits women more than men. Yet school-based basic education for girls would have a highly significant impact on health, fertility, and general wellbeing. A World Bank study (1997) showed that in Honduras improved educational quality had strong positive efforts on earning, with the strongest impact occurring at the lower percentiles of the earnings distribution. The problem, as stated by one USAID professional, is "stovepiping" (vertical programs required by rules within earmarks that discourage more joint programming). The reduction in education funding over the past decade exacerbates the problem.

Policy Coherence

New guidelines from USAID Washington suggest that no more than 30 percent of Food for Peace commodities be monetized because farmers complain that free food distribution results in falling prices for their products. On one hand, diminished monetization would hamper efforts to achieve long-term poverty reduction through integrated programs in poor rural areas. On the other hand, if farmers' complaints are valid, poor basic grains producers should benefit from the domestic price effects of following the new guidelines. ■

Table 8. Program Allocations to Economic Growth and Population, Health, Nutrition, and Education, FY1995–2002 (including Child Survival and Development Earmark)
(thousand dollars)

	1995	1996	1997	1998	1999	2000	2001	2002
Economic Growth	19,285	16,567	5,922	4,832	3,790	6,489	4,310	4,833
Population, Nutrition, Health, and Education	9,320	10,071	13,338	12,338	8,758	14,474	12,016	9,412
Child Survival and Development	0	0	0	0	6,540	7,250	8,440	8,800
Population, Nutrition, Health, and Education (plus Child Survival)	9,320	10,071	13,338	12,338	15,298	21,724	20,456	18,212
Total	**28,605**	**26,638**	**19,260**	**17,170**	**19,088**	**28,213**	**24,766**	**23,045**

Source: USAID congressional presentations

Lessons Learned

1 U.S. leadership and donor coordination played a key role in facilitating policy reform and the PRSP process.

Donor coordination, especially strong in Honduras since Hurricane Mitch, can play a key role in facilitating policy reform, promoting structural change, and facilitating dialogue between government and civil society. While the pace of policy reform and structural change in Honduras has not been fast, effective donor coordination through the Group of 15 mechanism has probably accelerated these processes and laid the groundwork for future gains by improving the quality of the public debate. The international donor community was effective in promoting government-civil society contacts, which have increased significantly since 1998.

In Honduras, USAID Honduras was in many instances the lead donor in the PRSP process. In particular, the Agency played a key role in getting important issues of anticorruption and decentralization into the document. The ingredients of this success included the leadership of individuals in the U.S. country team and the donor community, and special circumstances, including hurricane reconstruction and the willingness of the Honduran Government to engage in a collaborative dialogue with donors. Whether these circumstances will continue to be favorable is not clear. The effectiveness of donor coordination is not constant over time within any particular country and often depends upon particular individuals. Most respondents in the PPC evaluation felt that the departure of the U.S. ambassador in September 2002 would create a major leadership void in the donor community. Hurricane Mitch reconstruction activities were winding down and some members of the donor community were uncertain about the new Honduran administration's commitment to donor coordination and civil society participation. USAID—and the U.S. foreign policy community generally—should recognize the importance of effective donor coordination and strive to maintain its recent high level.

2 USAID Honduras's approach to poverty reduction looks better on paper than in practice, as more funds are devoted to poverty alleviation activities.

Since 1996, USAID Honduras had a strong focus on poverty reduction through economic growth. The balance between indirect programs supporting the environment for economic growth and direct

programs for delivery of services appeared to be good. However, by 2002 the mission's portfolio—measured by actual dollars spent (excluding the special reconstruction activities following Hurricane Mitch)—had evolved into a program heavily oriented toward social service delivery. Fewer aid dollars went to support economic growth and half of economic growth, agriculture, and trade monies went to microenterprise support, most of which represented poverty alleviation rather than poverty reduction. More USAID funds went to support the delivery of social services to poor people, and few of these funds focused on sustainability and policy reform issues in the health and education sectors. Economic policy reform seems to have taken a back seat.

Main factors responsible for this change are congressional earmarks and the adoption of the managing for results approach. Earmarks for child survival and development drove the increase in allocations to health and population activities over the last five years. The results-management approach requires reporting on measurable, quantifiable indicators every six months or every year. This encourages officers to design projects with short-term, measurable results rather than longer-term policy reform programs with results that may be more difficult to measure. Other factors may have also contributed, such as the LAC bureau's adoption of what was largely a poverty alleviation approach, and a reduction in the number of economic growth (agriculture and economics) and education officers Agency-wide (Plunkett and Salinger 1999, 21–22 and USAID/LAC 1999). It may very well be that USAID's level of concern with policy reform in Honduras has been outstripped by the apparent increase of structural problems (crime, the failure to confront the government wage problem) and the growing awareness on the part of donors that without institutional and policy reform, little economic growth can take place.

3 Tracking poverty indicators is important for targeting poverty reduction.

The Honduran experience of the last decade or so illustrates the importance of regarding poverty as multidimensional. Though income-based poverty indicators showed little improvement over this period, some social indicators showed significant gains, especially those for health status and access to potable water and sanitation facilities. These social indicators reveal an improvement in the human capital of poor Honduran households, and thus their ability to achieve higher income levels over the long run. Greater improvements in education indicators—including those that reflect quality—will be especially important for long-term poverty reduction in Honduras.

As in the case of Romania, USAID could benefit by being more explicit about how its activities in Honduras contribute to poverty reduction. One way to do this would be to select indicators that more directly measure the various dimensions of poverty, as well as to track comprehensive indicators such as the income-based incidence of poverty. However, USAID Honduras may conclude that these indicators are not within its manageable interest. Another argument against this approach is that the mission has already revised its performance indicators too often in recent years, thus making it difficult to track how well it is meeting its SOs over the medium term. A preferable approach to tracking poverty better may be to include an "impact on poverty" section in each of the SO narratives in R4 and related reports.

4 Income inequality makes poverty reduction more difficult.

This case study confirms the findings of recent economic studies that greater initial inequality in the distribution of income makes poverty reduction through macroeconomic growth more difficult. It is important under these circumstances that any long-run poverty reduction strategy give high priority to targeted activities that strengthen the human capital of poor households, increase their access to productive assets, and provide infrastructure that improves their access to markets and lowers their transaction costs.

Annex 1. USAID Honduras: Strategic and Intermediate Objectives and Performance Indicators

Table 9. USAID Honduras: Strategic Objective Performance Indicators

SO1: Expanded and Equitable Access to Productive Resources and Markets	■ Annual value of private sector investment ■ Percentage of micro- and small enterprises receiving financial services from USAID ■ Percentage of portfolio at risk over 30 days
SO2: Improved Management of Watersheds, Forests and Protected Areas	■ Area under conservation programs ■ Number of protected areas under improved management ■ Number of municipal government and rural communities with key personnel trained ■ Number of improved watershed management units at municipal level
SO3: Sustainable Improvement in Family Health	■ Percentage of quality rural water systems working ■ Percentage of children with adequate growth trends ■ Confirmed cases of malaria ■ Cure rate of treated TB cases ■ HIV seroprevalence in commercial sex workers ■ Number of couple years of protection through reproductive health services
SO4: Strengthened Rule of Law and Respect for Human Rights	■ Number of criminal cases disposed of per judge per year in pilot courts ■ Number of Public Ministry cases successfully adjudicated by the court ■ Compliance with criminal case resolution timeframes for cases in pilot courts ■ Percentage of cases prosecuted and adjudicated by pilot courts ■ Progress in implementation of new Criminal Procedures Code
SO6: Improved Opportunity to Obtain Basic Education and Vocational Skills	■ Percentage of primary education students passing grade levels ■ Number of graduates from vocational training centers finding employment
SO7: More Responsive and Effective Municipal Government	■ Number of small municipalities strengthened ■ Percentage increase in municipal income ■ Number of participants in town meetings ■ Coverage of public services (sewage etc.)

Source: USAID Honduras R4, April, 2001. This document did not provide annual indicators for SO5 (Hurricane reconstruction program).

Annex 2. Conceptual Comparison Between Sustainable Development and the Evolving Poverty Reduction Paradigm

Table 10. Sustainable Development and the Evolving Poverty Reduction Paradigm

Comparison Element	USAID's Sustainable Development Approach	Evolving Poverty Reduction Paradigm (EPRP)
Importance of economic growth	Broad-based economic growth is essential, in both the short and long run. Sustainable development supports "Washington consensus" economic policies of fiscal discipline, redirection of government expenditure on health and education, tax reform, trade liberalization, privatization, foreign direct investment, etc. Less explicit concern with inequality.	Most proponents stress fundamental importance of economic growth. More attention paid to consequences of economic policies on income distribution. Some argue that growth is important in the long run, but can be deferred in the short run in favor of basic health and education (UNDP, UNICEF).
Central priority of poverty reduction	Justification in the annual strategic plan emphasizes U.S. national interests. Poverty reduction is seen as a sustainable development outcome, not an overarching goal. Few objectives in the annual plan relate directly to poverty reduction. Sustainable development embraces a country-wide approach.	Poverty reduction and decreased income inequality are overarching goals, justified in terms of ethical and moral imperatives, but also a means of improving the quality of economic growth. EPRP specifically targets the poor.
Definition and measurement	USAID's six strategic goals are closely linked to measurable indicators, of which many—but not all—are good poverty reduction indicators. However, no indication of how these individual goals are linked to one or several overarching goals.	With poverty reduction as the overarching goal, it is easier to define and measure progress toward achieving that goal.
Increased openness to trade, capital, and information flows	USAID is firmly in favor of openness. Strategic plan lists trade, foreign direct investment, and economic freedom as important indicators of successful performance. No acknowledgment in strategic plan of risks and increased vulnerability attached to greater openness.	Openness to trade, capital, and information flows is welcome among most proponents, but with varying degrees of reservation about increased vulnerability and inequality which may ensue. Opinions range from Oxfam/PVOs ("openness is a threat") to World Bank/IMF ("openness is an opportunity").
Poverty reduction and the role of government	Acknowledges the need for increased accountability, improved transparency, greater democracy, and enhanced governance on the part of government.	EPRP goes further to acknowledge national and local government as important instruments for poverty reduction, and explicitly recognizes value of public services to poor people.
Vulnerability of the poor	Disaster assistance in USAID's strategic plan is essentially reactive, short-term humanitarian assistance in response to crises. New attention being paid to conflict prevention, including development of early warning systems.	EPRP goes further and recognizes the need to establish effective, long-term safety nets to lessen the poor's vulnerability to disaster, economic downturn, or incapacitation of the breadwinner.

Table 10. Sustainable Development and the Evolving Poverty Reduction Paradigm, continued

Comparison Element	USAID's Sustainable Development Approach	Evolving Poverty Reduction Paradigm (EPRP)
Priority assigned to agricultural development	One of USAID's strategic objectives explicitly highlights need to encourage more rapid and enhanced agricultural development and food security.	Priority accorded to agriculture and rural development varies across donor agencies, being highest at the International Fund for Agricultural Development and some PVOs, and lowest in the World Bank, OECD/DAC, UNICEF, and UNDP.
Empowerment of the poor	The annual strategic plan encourages rule of law, respect for human rights, credible and competitive political processes, politically active civil society, and accountable government institutions. Less relative emphasis on direct empowerment of the poor.	EPRP supports strengthening the participation of poor people in political processes and local decisionmaking that affect their daily lives, and removing social and institutional barriers that result from distinctions of gender, ethnicity, and social status.
Health and education	USAID supports expansion of basic education, especially for girls and women, and higher education institutions. Health objectives emphasize reproductive health services and reduction of HIV transmission.	EPRP emphasizes importance of increasing the poor's access to government services in basic health and education ("human development"); according to some (UNDP, UNICEF), this should be a priority no matter the level of income or rate of economic growth.
Environmental sustainability	USAID's environmental sustainability framework emphasizes global environment, biodiversity, and sustainable urbanization, energy use, and local resource management.	EPRP recognizes that environmental concerns must be woven into sustainable livelihood strategies for the poor. Degree of emphasis on environmental sustainability varies greatly among donors subscribing to EPRP.
Direct and indirect approaches to poverty reduction	USAID's strategic plan emphasizes economic growth and other indirect approaches at the country level to establish the economic, social, and political environment for poverty reduction.	Because of concern that economic growth and other indirect approaches may not reach the poor, emphasis of EPRP has shifted toward direct interventions. These are relatively well targeted but may not reach large numbers of the poor.
Policy coherence	The USAID management goal recognizes importance of strengthened collaboration with partners and more compatibility with other donor programs.	EPRP goes further to recognize that the poverty reduction focus of donor activities can be seriously undercut by other donor policies (e.g., import restrictions) and international agreements (e.g., WTO accords) in many areas outside of development assistance.

Source: Salinger and Stryker (2001)

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For more information, contact
U.S. Agency for International Development
Washington, D.C. 20523-1000
Telephone: 202-712-4810
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